

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2006**



**The  
Mission City**

**CITY OF SANTA CLARA, CALIFORNIA  
1500 WARBURTON AVENUE  
SANTA CLARA, CA 95050-3796**

**PREPARED BY DEPARTMENT OF FINANCE**

## ***Introductory Section***

# CITY OF SANTA CLARA

## Comprehensive Annual Financial Report

### TABLE OF CONTENTS

Page No.

#### INTRODUCTORY SECTION

Table of Contents.....	i
Letter of Transmittal .....	v
Roster of Council and Commission Members .....	xv
Directory of City Officials .....	xvi
GFOA Certificate of Achievement.....	xvii
CSMFO Certificate of Award for Outstanding Financial Reporting .....	xviii
Organization Chart .....	xix
Local Map .....	xx

#### FINANCIAL SECTION

<b><i>Independent Auditor's Report on Basic Financial Statements</i></b> .....	1
<b><i>Management's Discussion and Analysis</i></b> .....	3
<b><i>Basic Financial Statements:</i></b>	
Government-wide Financial Statements:	
Statement of Net Assets .....	29
Statement of Activities .....	30
Fund Financial Statements:	
Major Governmental Funds	
Balance Sheet .....	34
Reconciliation of Fund Balances to Governmental Activities Net Assets.	35
Statement of Revenues, Expenditures, and Changes in Fund Balance...	36
Reconciliation of the Net Change in Fund Balances Total Governmental	
Funds with the Statement of Activities .....	37
Major Proprietary Funds:	
Statement of Net Assets .....	40
Statement of Revenues, Expenses and Changes in Fund Net Assets ....	42
Statement of Cash Flows .....	44

# CITY OF SANTA CLARA

## Comprehensive Annual Financial Report

### TABLE OF CONTENTS

	<u>Page No.</u>
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets .....	48
Notes to Basic Financial Statements .....	50
 <b>Required Supplementary Information:</b>	
Notes to Required Supplementary Information .....	113
Schedule of Revenues, Expenditures, and Changes in Fund Balances– Budget and Actual:	
General Fund.....	114
 <b>Supplementary Information:</b>	
<i>Non-major Governmental Funds:</i>	
Combining Balance Sheet.....	120
Combining Statements of Revenues, Expenditures and Changes In Fund Balances .....	124
Special Revenue Maintenance Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Legal Basis).....	128
 <i>Internal Service Funds:</i>	
Combining Statements of Net Assets .....	130
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets .....	131
Combining Statements of Cash Flows.....	132
 <i>Agency Funds:</i>	
Combining Balance Sheet.....	134
Statement of Changes in Assets and Liabilities – All Agency Funds .....	135

# **CITY OF SANTA CLARA**

## **Comprehensive Annual Financial Report**

### **TABLE OF CONTENTS**

	<u>Page No.</u>
<b>STATISTICAL SECTION</b>	
1. . Net Assets by Component - Last Five Fiscal Years.....	137
2. . Changes in Net Assets - Last Five Fiscal Years.....	138
3. . Fund Balances – Governmental Funds - Last Five Fiscal Years.....	140
4. . Changes in Fund Balances – Governmental Funds - Last Five Fiscal Years .....	141
5. . Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years ..	142
6. . Property Tax Rates Direct and Overlapping Governments – Last Ten Fiscal Years....	143
7. . Principal Property Tax Payers 2005-06 and 2002-03 Comparison for General Fund ..	144
8. . Property Tax Levies and Collections – Last Ten Fiscal Years .....	145
9. . Ratios of Outstanding Debt by Type – Last Four Fiscal Years.....	146
10. Population and Assessed Valuation – Last Ten Fiscal Years .....	147
11. Computation of Direct and Overlapping Bonded Debt .....	148
12. Legal Debt Margin Information – Last Ten Years .....	149
13. Pledged Revenue Coverage Electric Revenue Bond Fiscal Years 1997 - 2006 .....	150
14. Demographic and Economic Statistics – Last Ten Calendar Years .....	151
15. Principal Private Employers .....	152
16. Full-Time Budgeted City Employees by Program/Function .....	153
17. Operating Indicators by Function/Activity .....	154
18. Capital Assets by Function .....	155
19. Statement of Insurance Coverage .....	156

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Mary Ann Parrot  
Director of Finance

December 12, 2006

Citizens of the City of Santa Clara  
The Honorable Mayor and City Council  
City of Santa Clara  
Santa Clara, CA 95050

Dear Citizens, Mayor and Members of the City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clara (City) for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various funds of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

## ECONOMIC ENVIRONMENT

The City enjoys a diversified industrial and commercial base. Santa Clara is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. Ninety-five percent of the land zoned for industrial uses is developed with approximately 850 manufacturing plants producing telecommunications equipment and computer systems, fiberglass, paper and chemicals. The City is also home to a university, a community college, an adult learning center, and a general hospital with a 337 total bed capacity and 237 affiliated physicians/surgeons.

At the national level, the economy continues to expand with some slowdown forecasted in 2007. While not a recession, the economy is expected to experience some sluggish growth with inflation above the comfort level and some modest increase in unemployment. In the quarter ending June 30, 2006, gross domestic product (GDP) grew at an annual rate of 2.6% down from 5.6% in the first quarter of 2006. A recent report by UCLA Anderson Forecast predicts that GDP growth will continue to slow through the second quarter of 2007, averaging 1.8%. The expected economic slowdown is a direct result of the downturn in the residential housing market. Over this same period, the average increase of the core consumer price index is forecasted at 3.2%.

The State's long-term budget challenges further complicate the City's financial picture. In the fiscal years 2007-08 and 2008-09 the State faces budget shortfalls of \$4.5 billion and \$5 billion, respectively. In fiscal year 2004-05, State takeaways from the City's General and Redevelopment Funds were \$10.2 million. In fiscal year 2005-06 the City of Santa Clara paid approximately \$8.2 million in property tax revenue to the State in original and additional ERAF (Education Revenue Augmentation Fund).

In the November 2004 general election, California voters approved Proposition 1A which prohibits the State from arbitrarily taking away local revenues except under severe financial emergencies. The passage of this constitutional amendment restores some predictability and certainty to the funding needed for police, fire, parks, libraries and other essential local services. Nevertheless, the State continues to divert \$3.6 million in annual property tax revenue for the years 2006-07 and forward from the City under the original ERAF allocation.

At the local level, the Bay Area economy, and in particular the Silicon Valley region, has turned the corner and continues to work its way out of the most severe economic downturns to affect the area. The consensus economic opinion continues to be one in which the regional economy will lag the national economic recovery, with the Silicon Valley's recovery being particularly slow. There are positive signs of economic recovery, as well as some early indications of a softening economy: sales taxes, property taxes and transient occupancy taxes are above last year's receipts. However, building permit revenues, documentary transfer tax revenues and plan check fees are showing signs of slowing. Whether this is due to the housing slowdown or whether they are indications of a general economic slowdown remains to be seen.

During fiscal year 2005-06, the City used a three-pronged approach to improve the financial picture for the General Fund:

- Take advantage of improving local economic conditions, both applying increasing revenues judiciously as well as promoting economic development through strategic partnerships.
- Increase fees and cost allocation to approach full cost recovery, continuing a strategy put in place several years ago.
- Hold positions frozen when vacant due to attrition and/or retirement; continue to review departmental organization and eliminate services where outdated, unnecessary or where services could be automated.

The fiscal 2005-06 direct and indirect revenues to the General Fund were \$6.1 million higher compared to prior year. The General Fund's major direct revenue sources – sales, property, and other local taxes were higher than in the previous fiscal year, indicating that the worst economic conditions might be over for the City. In addition, the City also incurred increased expenditures of \$2.2 million due primarily to increased costs of salaries and benefits approved for employees. The additional revenues this year covered the increased expenditures, and after the required transfer to the City's Land Sale Reserve of \$1.7 million and the City's Building Inspection Reserve of \$0.8 million, the City added \$1.3 million to the General Contingency Working Capital (Emergency) Reserves.

Despite the addition to reserves, the City still faces structural annual deficits ranging from \$355,000 to \$5.8 million from 2008-09 through 2011-12. The primary reason is that salaries and benefits approved in labor contracts are growing at 3.2% per year, while revenues are projected to increase at 2.2% per year. The City's strategy going forward is to move to a structurally balanced budget and increasing reserves through a series of actions: holding 34 positions frozen (32 of these positions in the General Fund) over the next several years for savings of \$3.4 million per year, developing additional opportunities to reorganize department services for more efficient and effective ways to operate that will reduce costs without significantly impacting citizen service levels. Additional revenue increases are being explored, capital projects will continue to be deferred or eliminated where possible (especially if they have General Fund operational cost impacts), and some modest use of remaining reserves may occur.



Balancing the City's General Fund budget will take a sustained effort over several years, especially because staff and the City Council have already reduced expenditures and modified services as the organization has responded to the financial challenges over the past five years. There is also a need to replenish emergency reserves that have been used to balance the General Fund budget in the last few years. Replenishing reserves is a high priority of the City Council and City Manager.

The remaining City funds are in a positive position. These items are discussed in more detail in the remainder of this letter and in the Management Discussion and Analysis, which follows.

## **CITY MISSION, VISION, AND GOALS**

### **Mission Statement**

The mission of the City of Santa Clara is to promote a living and working environment that allows for the best quality of life by serving the community with resourceful, efficient, progressive and professional leadership. (Approved by City Council on July 25, 1989.)

### **Vision**

SANTA CLARA: Superb, affordable services in a caring community that values our rich history and nurtures technologies that build the future.

In April 2005, the City Council adopted the Council priority and supporting principles for fiscal years 2005-06 and 2006-07.

### **Council Priority:**

The City Council priority is to focus on successful completion of existing City projects, postpone new City projects and proposals, and operate within Council adopted budget principles and priorities, with the goal of guiding the City successfully through the economic downturn.

### **Supporting Principles:**

- Maintain Superb/Affordable Core Services,
- Foster Public Trust/Demonstrate Leadership,
- Work Efficiently with Focus on Fiscal Responsibility,
- Support and Celebrate Community/Volunteer Partnerships,
- Pro-active Economic Development/Fiscal Partnerships.

The City Manager, with the assistance of City department heads, has developed implementation plans for achieving these goals and the related objectives. Quarterly status reports of accomplishments are prepared and presented to the City Council as several action plans related to each goal are completed.

## **MAJOR CITY INITIATIVES**

### **Public Facilities and Special Programs**

#### New Public Facilities

The City has been upgrading or adding new facilities to enhance its service delivery to citizens. During fiscal year 2005-06, the City celebrated its second full-year of operation of its new Central Park Library. Patronage increased significantly and the number of items checked out had increased by 500,000 items per year since opening. Fire Station 6, adjacent to Rivermark, opened in August 2005. Fire Station 3 opened in June 2006, a replacement for the 45-year old station.

#### Parks and Recreation

During fiscal 2004-05, the construction started on the expansion of the Senior Center. When completed, the expanded Senior Center will include a fitness facility, lap pool, therapeutic pool, and expanded social and recreation services to seniors and the disabled. This will be the first major addition to the Center in many years. The expanded Senior Center construction is nearing completion, with occupancy expected in January 2007. As a joint project with Santa Clara Unified School District, construction also was completed on a 350-seat community theater complex at Wilcox High School. It will provide a community theater for use by the School District as well as for local theater groups. In addition, an expansion project at the Community Recreation Center is underway. Phase 1, which included Junior Theater improvements, is complete. Additional parks opened in the fiscal year included Live Oak Park (April 2005) and Thamien Park (April 2006).

### **Land Use/Neighborhood Issues**

#### North of Bayshore Area

The North of Bayshore area of the City includes the Convention Center, Paramount's Great America Theme Park, and a number of commercial, industrial and residential developments including the Sun Microsystems campus. The North of Bayshore area has been a major center of development activity over the past several years. A number of projects have either been finished or are underway that will enhance this area. They include construction of Phase 2 of the San Tomas Aquino Creek Trail and transfer of leasehold interests for Great America Theme Park to Cedar Fair and for Techmart Office Tower to The Blackstone Group. Design is underway for the expansion of the Convention Center Ballroom and Parking Garage. Phases I and II of the Rivermark-Agnews West Campus development on 213 acres, which have been under construction since 2001, are complete. The entire project consists of over 3,000 housing units, a retail area with major supermarket, hotel and public facilities.

#### Housing Programs

The City is currently in its first year of another 5-year capital budgeting program for affordable housing. The City continues to support the availability of affordable housing in the City, including various grant programs to non-profit agencies that provide housing services to Santa Clara residents such as Catholic Charities, Council on Aging, Emergency Housing Consortium-LifeBuilders, Silicon Valley Independence Living Center, Next Door – Solutions to Domestic Violence, and Project Sentinel. During fiscal year 2005-06, the City funded \$1,428,000 to set-aside 10% of the new units for low- and moderate-income households at the following projects:

- Prometheus Rivermark BMP – 14 units
- Diamond Properties Townhouses BMP – 4 units
- Santa Clara Lumber Site BMP – 2 units;
- Main Street Condominium Conversion BMP – 1 unit;
- Palms Condominium BMP – 5 units

These subsidized units will remain affordable for 55 years.

Since establishing the Housing Programs Fund in 1990, the City and Redevelopment Agency have funded approximately \$99.72 million in assistance for programs and projects that increase, rehabilitate and maintain affordable housing for low and moderate income households. These funds have assisted or will assist in the development of over 2,097 new housing units and the acquisition or rehabilitation of 605 units of existing housing for low- and moderate-income households. The assisted housing units and the provision of affordable housing has provided affordable housing opportunities to over 2,300 low-income households and over 446 moderate-income households.

### **Economic Development**

The City of Santa Clara has a team approach to economic development, anchored by emphasis on high quality services, including reliable energy, water and other utility services at the lowest combined utility rates in the nine-county region. As one example of this effort, during the year, two companies, Agilent Technologies and Marvel Semiconductor, continued the expansion of their respective corporate headquarters in the City. In addition, EMC Corporation announced the co-location of its regional software, sales and service operations in the City.

#### Redevelopment Agency – North of Bayshore Project Area Long-Term Financial Plan

The North of Bayshore Redevelopment Project Area is one of the key elements of the City's economic development program. Staff developed a long-range financial plan for this project area that outlines significant projects, which are either in progress or are planned for the area. During fiscal year 2002-03, \$44 million of tax increment bonds were issued to fund these projects. The funding and the desirable projects, which include a parking structure, a fire station, future branch library, and expansion of the Convention Center ballroom, are consistent with the economic development goals of the City. Two major corporate transactions occurred in 2006: the sale of Great America Theme Park to Cedar Fair, and the sale of the Techmart Office Tower to the Blackstone Group. Because of the land leases, which the City holds, the transactions included the review and approval by the City of the transfer of the land leases to the new owners.

#### Traffic Mitigation

The City has committed significant resources from traffic mitigation fees and special assessment bonds to projects that will alleviate traffic congestion in the major industrial areas of the City. These projects are designed to promote business development and retention. The improvements budgeted for 2005-06 included \$2.0 million to fund intersection improvements at El Camino Real and Lafayette Street, El Camino Real and San Tomas Expressway and Kiely Boulevard and Homestead Road. With more than 45 miles of bike lanes, routes and paths, Santa Clara is bike commuter friendly. Current plans call for additional links to popular routes connecting light rail and the new Rivermark community.

## **Santa Clara Utilities**

### Santa Clara Electric Utility d.b.a. Silicon Valley Power

The City continues to proactively address the electricity needs of the community to better serve the City's businesses and residents. An analysis of the impact of the Donald Von Raesfeld Power Plant (DVR), completed in 2005, shows that the plant saves the City approximately \$16.2 million in increased energy costs.

In response to climbing oil prices and increased volatility in energy costs, City Council approved the first rate increase in thirteen years for the electric utility: a combined increase of 10.25% over two rate increases in January 2005 and January 2006. The City also completed a forward swap of some of the Electric Utility bonds, which will save the ratepayers approximately \$500,000 per year in interest costs starting in 2008.

For fiscal year 2005-06, the Electric Utility realized a net loss before transfers of \$26.4 million. In FY05-06, there was a net one-time charge of \$21.5 million in settlement of the energy contract dispute with Enron. For the long-term, there is an overall increase in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. The utility will continue to monitor costs and revenues and to assess whether recommendations for future rate increases may be necessary.

### Water and Sewer Utilities

In addition to providing efficient and affordable water and sewer utility services to Santa Clara residents and businesses, the City continues to undertake programs to improve water quality and water supply reliability for its residents and to minimize treated sewage effluent discharge into the South Bay. The City has also committed additional funding to retrofit the City's existing water storage tanks to meet the current seismic safety standard. With federal grant funding, the Water Utility has completed a project to ensure that the City's water transmission and distribution facilities have enhanced security protections.

The City continues to expand its recycled water program. Currently 13 City parks, the Santa Clara Youth Soccer Park, City Cemetery and Santa Clara Golf and Tennis Club and the Donald Von Raesfeld Power Plant are using recycled water. The City now saves 1,200 acre-feet of potable water per year due to the implementation of the recycled water program.

## **FINANCIAL REPORTING FORMAT AND STANDARDS**

This CAFR is presented in three sections:

- 1) **INTRODUCTORY SECTION** – includes this letter of transmittal, roster of Council and Commission members, directory of City Officials, the City's organizational chart, certificate of achievement from the Government Finance Officers Association (GFOA), certificate of award from the California Society of Municipal Finance Officers (CSMFO) and a location map.
- 2) **FINANCIAL SECTION** – includes the Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements. Also included in the Financial section are the following:

- a) **MANAGEMENT'S DISCUSSION AND ANALYSIS** – the City's financial results summarized in the Management's Discussion and Analysis, which precedes the Basic Financial Statements.
  - b) **REQUIRED SUPPLEMENTARY INFORMATION** – includes the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (non-GAAP Legal Basis) for the General Fund.
  - c) **SUPPLEMENTARY INFORMATION** – includes the combining statements for Non-major Governmental Funds, Internal Service Funds and Fiduciary Funds.
- 3) **STATISTICAL SECTION** - includes selected financial and demographic information, generally presented on a multiyear basis.

The Basic Financial Statements included in the CAFR have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of the City's independent certified public accountants, Vavrinek, Trine, Day and Co., LLP.

In addition, the City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act, U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governmental Units and Non-Profit Organizations, and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Information related to the June 30, 2006, single audit, including the schedule of expenditures of federal awards, and the auditors' reports on compliance and on internal control over financial reporting and compliance with applicable laws and regulations, are included in the single audit report which is separately issued and available at Santa Clara City Hall in the City Clerk's Office.

## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Santa Clara, also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. It uses the Council/Manager form of government. The City Council is made up of six Council members and a directly elected Mayor, all of whom serve "at large". The City Council appoints a City Manager who is responsible for the overall administration of the City. The City is located in the County of Santa Clara, California, and is approximately 45 miles southeast of San Francisco and three miles west of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. As of January 1, 2006, the City population was estimated by the California State Department of Finance at 110,771 approximately 6.2% of the total Santa Clara County population.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water and sanitation services; the construction and maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

This CAFR includes all funds and account groups of the City, as well as all activities of entities considered to be a part of, controlled by, and dependent on the City. These entities include the Redevelopment Agency of the City of Santa Clara (Agency), the Public Facilities Financing

Corporation (PFFC), and the City of Santa Clara Sports and Open Space Authority (SOSA). In addition, separate financial statements have been issued for both the Agency and the Electric Utility Enterprise Fund. These separate financial reports are available at the Santa Clara City Hall in the City Clerk's Office.

## **FINANCIAL INFORMATION**

### **Internal Controls**

The management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above stated framework. City management believes the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **Single Audit**

As a recipient of federal financial assistance, the City is responsible for establishing and maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the City's independent certified public accountants.

As part of the City's single audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial assistance programs, and that the City has complied with applicable laws and regulations. The results of the City's single audit for the year ended June 30, 2006, published in a separately issued report, indicated that there were no material weaknesses in internal controls.

### **Budgetary Controls**

As part of the City's internal controls, it maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the City funds are included in the annual appropriated budget. In addition, each year a Capital Improvement Project Budget is adopted and a Five Year Financial Plan is updated and accepted by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The City Manager may transfer appropriations from one program to another within the same fund and the object category of a department without approval from the City Council. All other transfers must be approved by the City Council. The City also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities under GAAP.

As demonstrated by the statements and schedules included in the Required Supplementary

Information and Supplementary Information sections of this report, the City continues to meet its responsibility for sound financial management.

### **Measurement Focus and Basis of Accounting**

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the year. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred. The measurement focus of governmental funds is available financial resources. Therefore, long-term assets and liabilities are not reported in governmental funds but instead are reported in the government-wide financial statements.

All proprietary funds are accounted for using the full accrual basis of accounting. Under the full accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of revenues or payment of expenses may take place, in whole or in part, in another accounting period. The measurement focus of these funds is capital maintenance and therefore, all fund assets and liabilities are reported in the fund.

## **OTHER INFORMATION**

### **Independent Audit**

The City Charter and State of California statutes require the City to have an annual audit by an independently certified public accountant. The City goes to the market with an RFP for audit services every five years. In 2006, the accounting firm of Vavrinek, Trine, Day and Co., LLP, Certified Public Accountants, was selected by the City Council. In addition to meeting the requirements set forth in City Charter and State statutes, the audit is designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB Circular A-133. The auditors' report on the basic financial statements and the supplementary combining statements and schedules are included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separately issued single audit document.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Clara for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. The City has received this prestigious award for the past fourteen consecutive years. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Staff believes that our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate. In addition, the City has received the Certificate of Award for outstanding financial reporting from the California Society of Municipal Finance Officers

(CSMFO) for the past fifteen consecutive years.


### **Acknowledgments**

We would like to thank the Mayor and City Council for their support in establishing the policies for guiding the financial operations of the City in a responsible and progressive manner. Department Heads are also thanked for their strong leadership in adhering to financial goals and practices. Finally, we wish to acknowledge the excellent participation and professional contribution by the City staff and the City's auditors, Vavrinek, Trine, Day and Co., LLP, in the preparation of this document. Their dedication in preparing the City's Comprehensive Annual Financial Report and their efforts in preparing a document that is understandable and useful to the residents of the City and other readers is greatly appreciated.

Respectfully submitted,



Mary Ann Parrot, CPA  
Director of Finance

  
Jennifer Sparacino  
City Manager



**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2006**

**ROSTER OF COUNCIL AND COMMISSION MEMBERS**

**CITY COUNCIL**

Mayor  
Councilmember  
Councilmember  
Councilmember  
Councilmember  
Councilmember  
Councilmember

Patricia M. Mahan  
Dominic J. Caserta  
Will Kennedy  
Patrick Kolstad  
Jamie L. Matthews  
Jamie McLeod  
Kevin Moore

**BOARD OF LIBRARY TRUSTEES**

Omar Ahmad, Robert Byrd, Allen Lo,  
Sandra S. Rich, Jack Spillane

**CIVIL SERVICE COMMISSION**

Steve Chan, Mohammed M. Nadeem Ph.D.,  
Robert T. Owens, Randy Preston,  
Beverly Lynne Silva

**CULTURAL ADVISORY COMMISSION**

Sheilah Altomare, Michelle Castro,  
Martin A. David, Marwan A. Fawal,  
Jacqueline Moore, Art Silva, Phal J. Vaswani

**HISTORICAL & LANDMARKS COMMISSION**

Leigh A. Booker, Jim Boynton,  
Mary Ann Marinshaw, Gerald McKee,  
Charles A. Petersen, Ed Richards, Rosalie Wilson

**INTERNATIONAL EXCHANGE COMMISSION**

Beatrice Costa, R. Rushton Hurley,  
Maria Alice Jensen, Heidi M. Kozlowski,  
James Mathre, Eugene Mirabella, Peter Yoon

**PARKS AND RECREATION COMMISSION**

Carole A. Cooper, Lio Francisco, Julie Frazier,  
Vonna Gissler, Steve Lee, Jerry Marsalli,  
Chuck Seymour

**PLANNING COMMISSION**

Frank J. Barcells, Duarte Braga, Ian Champeny,  
Karen Hardy, Joe Kornder, Tony Marine,  
Mohammed A. Sarodi

**SENIOR CITIZENS ADVISORY COMMISSION**

Ann Creighton, Patrick Driscoll, Foster Steven Lopes,  
Carolyn G. McAllister, Doris M. Modesitt,  
Edward L. Murphy, Cleo M. Stuckrath

**YOUTH COMMISSION**

Ferheen Abbasi, Jeoffrey Batangan,  
Andrea Butkovic, Lili Chargin, Leslie Harbinson,  
Noah Lee, Elizabeth McCaman, Nikhil Marathe,  
Zedric Ochoa, Tracey Ottey, Jennifer Padwal,  
Angela Prochnow, Gary Schwartz,  
Alyssa Whitcomb, Amanda Whitcomb

**HOUSING REHABILITATION LOAN COMMITTEE**

Anne Kepner, Brice McQueen, Michelle Smith,  
Jamie Matthews

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2006**

**EXECUTIVE MANAGEMENT TEAM**

**CITY MANAGER**  
Jennifer Sparacino

**CITY CLERK**  
Rod Diridon, Jr.

**ASSISTANT CITY MANAGER**  
Ronald E. Garratt

**CITY ATTORNEY**  
Michael R. Downey

**DEPUTY CITY MANAGER**  
Carol L. McCarthy

**CHIEF OF POLICE**  
Stephen D. Lodge

**DIRECTOR OF PUBLIC WORKS**  
Steve Yoshino

**FIRE CHIEF**  
Phil Kleinheinz

**CITY ENGINEER**  
Rajeev Batra

**DIRECTOR OF ELECTRIC UTILITY**  
Junona Jonas

**DIRECTOR OF PLANNING & INSPECTION**  
Kevin Riley

**DIRECTOR OF WATER & SEWER UTILITIES**  
Robin G. Saunders

**DIRECTOR OF FINANCE**  
Mary Ann Parrot

**DIRECTOR OF STREETS &  
AUTOMOTIVE SERVICES**  
Richard J. Mauck

**DIRECTOR OF HUMAN RESOURCES**  
Renée Runģis

**DIRECTOR OF INFORMATION TECHNOLOGY**  
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# Certificate of Achievement for Excellence in Financial Reporting

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California

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Financial Report  
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June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



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A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director

# *California Society of Municipal Finance Officers*

## **Certificate of Award**

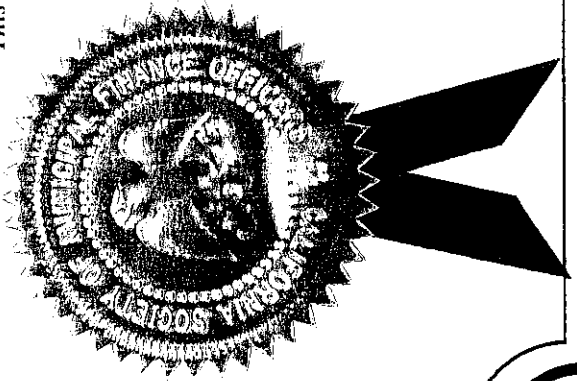
### ***Outstanding Financial Reporting 2004-05***

**Presented to the**

***City of Santa Clara***

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
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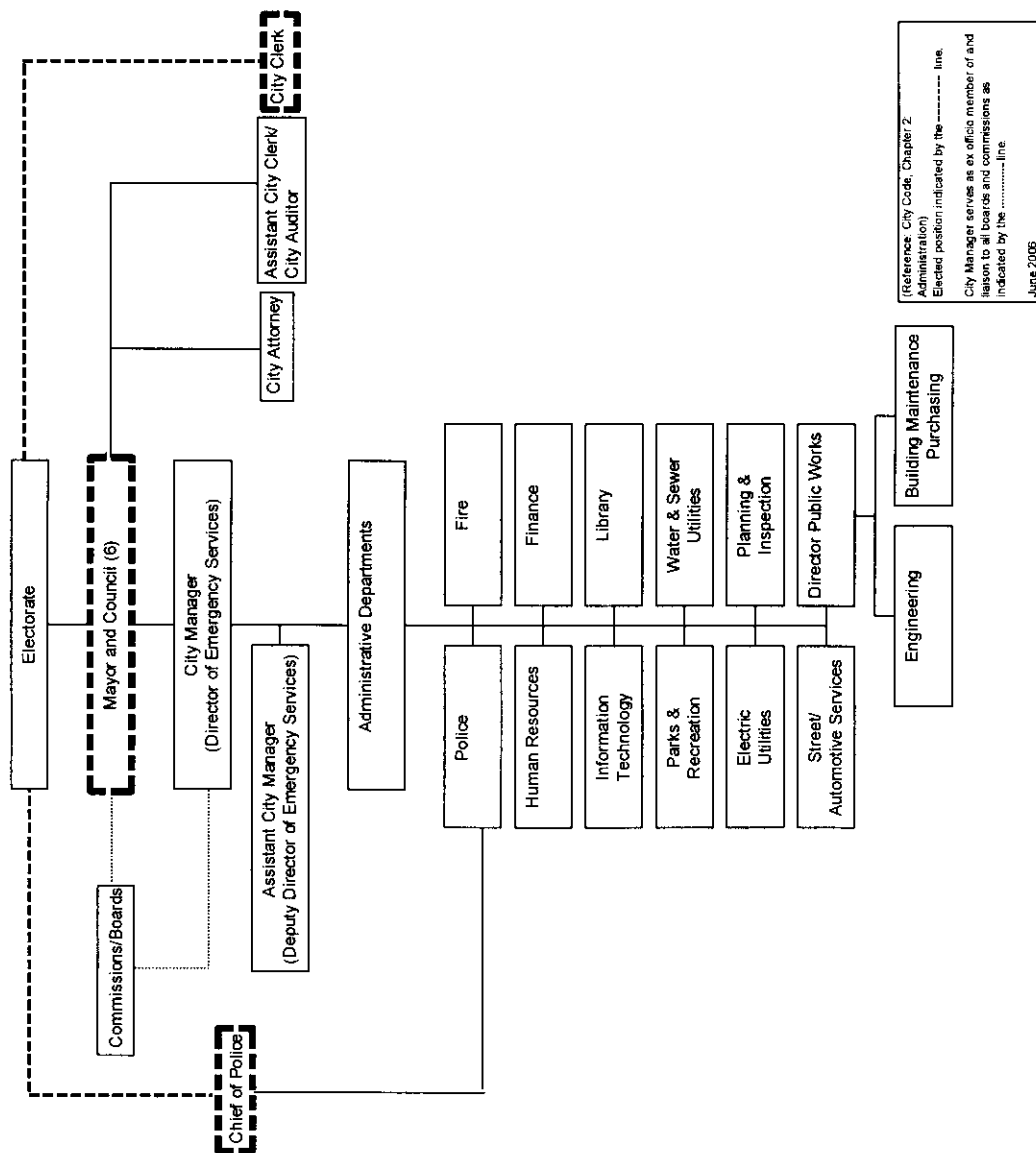


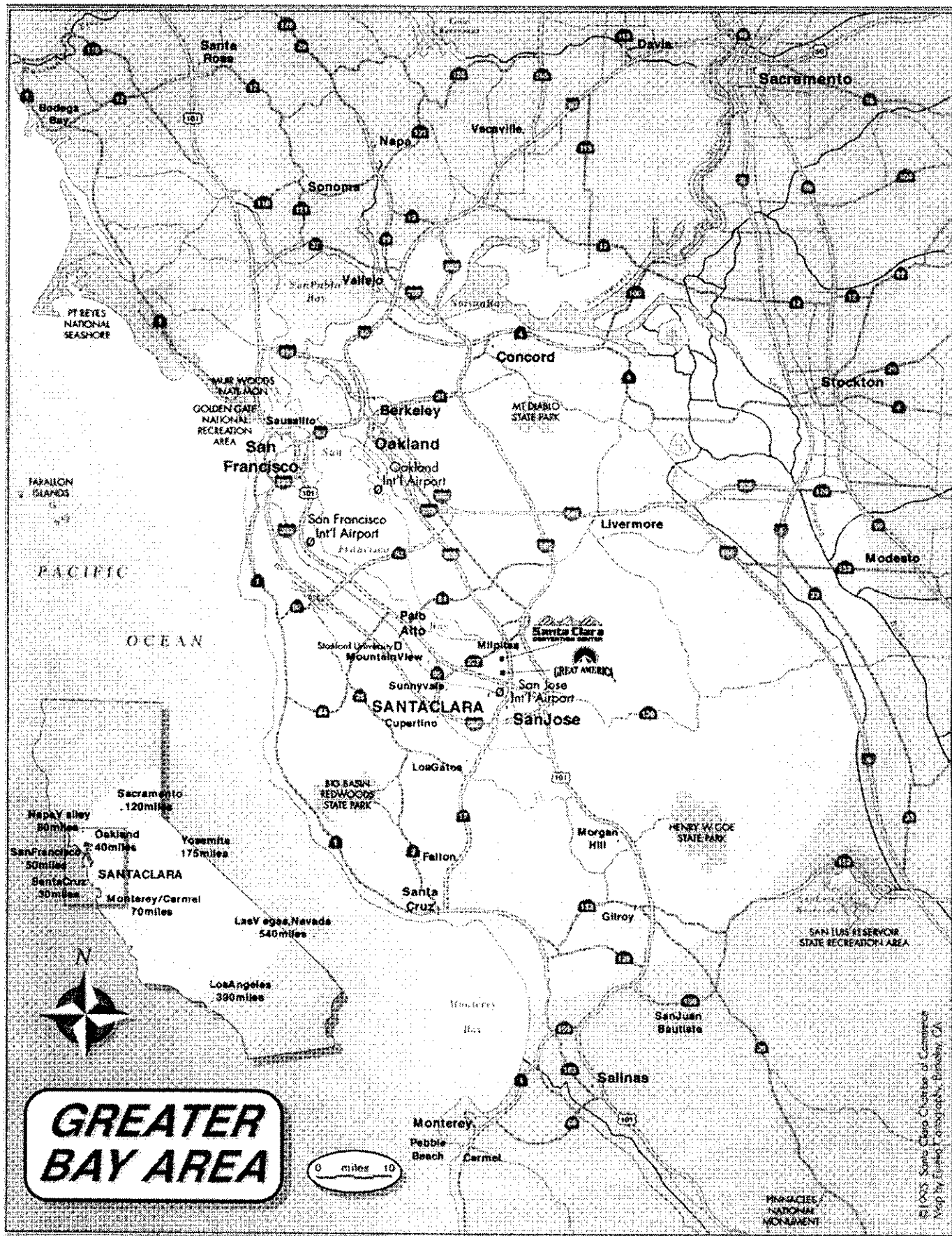
*William A. Sand*

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Professional & Technical Standards Committee

***Dedicated to Excellence in Municipal Financial Management***

# CITY OF SANTA CLARA ORGANIZATION CHART





© 1995 Santa Clara Chapter of Geographic Map by Eileen P. Grogan, Berkeley, CA

## ***Financial/MD&A Section***

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the City of Santa Clara's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year 2005-06. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL YEAR 2005-06 FINANCIAL HIGHLIGHTS**

In fiscal year 2005-06 the Bay Area economy, and in particular the Silicon Valley region, continued to expand, albeit slowly. The significant job loss in the Silicon Valley area due to the recent recession and the subsequent restructuring by local industries to meet the changing economic realities are key factors restraining the City's growth rate. Unemployment in the City of Santa Clara continued to drop from 4.8% in June 2005 to 4.3% in June 2006. Much of this decline was due to people who have left the workforce rather than robust hiring by local employers. However, the average pay per employee in Silicon Valley increased by 2.7% in 2005 compared to the prior year. The result was that key revenue resources, including sales tax, property tax and transient occupancy tax continued to grow. Interest revenue, however, continued to decline as the size of the portfolio decreased compared to the prior year. Finally, in an ongoing effort to help balance the State budget and fund public schools, approximately \$8.2 million of the City's property tax revenue was shifted to the State in fiscal year 2005-06.

The population of the City also continued to grow. According to the California Department of Finance's Demographic Research Unit the City's population grew from 109,106 people in 2005 to 110,771 in 2006. A primary factor contributing to this growth is the new Rivermark development which is now nearly fully built out and will add approximately 3000 new residences to the City when completed.

Additional financial highlights of fiscal year 2005-06 include (see Table 2):

#### *Citywide:*

- The City's total net assets (assets exceeding liabilities) were \$1,519 million in fiscal year 2005-06, a \$26 million decrease from the prior year due to decreases in net assets for Electric Utility of \$26 million, largely related to Enron settlement, Water Utility of \$2 million, and Governmental Activities of \$4 million for increased salaries and benefits and depreciation expenses account for this difference.
- Total City revenues, including program and general revenues, were \$685 million, an increase of \$87 million from the prior year, while total expenses were \$720 million, an increase of \$148 million. The revenue increase includes of \$83 million increase in Electric's wholesale activities and \$2 million higher receipts of Governmental Taxes. The expense increase is primarily related to the proportional increase in the electric wholesale costs and the cost increase as the Donald Von Raesfeld power plant started its operation in March of 2005.
- Governmental net assets were \$687 million, a decrease of \$4 million, while net assets in business activities were \$832 million, a decrease of \$31 million.
- Governmental program revenues were \$32 million, or unchanged from the prior year.
- Governmental program expenses were \$159 million in fiscal year 2005-06, a decrease of \$1 million from prior year.



- Program revenues from business-type activities were \$524 million in fiscal year 2005-06, up \$104 million from the prior year.
- Expenses of business-type activities were \$561 million in fiscal year 2005-06, a \$148 million increase from the prior year.

*Fund level:*

- General Fund revenues of \$116 million represented an increase of \$5 million from prior year amounts. This increase represents the effect of an improved economy as Sales Tax increased by \$2 million and Transient Occupancy Tax increased by \$2 million.
- General Fund expenditures of \$122 million were \$2 million more than the prior year due primarily to the increases of salaries and benefits reflecting recent union negotiations.
- The General Fund fund balance of \$67 million as of June 30, 2006 is \$10 million less than the prior fiscal year.
- See additional analysis in the “Financial Activities of the City As a Whole” section below.

## **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is presented in three parts:

- 1) Introductory Section, which includes the Transmittal Letter and general information,
- 2) The Financial Section, which includes the auditor’s opinion, the management discussion and analysis, the government-wide and the fund financial statements, along with the Notes to these financial statements, the required Supplementary Information, and the Combining Statements for Non-major Governmental Funds and Fiduciary Funds,
- 3) Statistical Information.

### **The Basic Financial Statements**

The Basic Financial Statements are comprised of the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City’s financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a long-term view of the City’s activities as a whole. They are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by private corporations. The Statement of Activities provides information about all the City’s revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and/or expenses of each City program. The Statement of Activities explains in detail the changes in Net Assets for the year.

The City-wide Financial Statements group all the City’s activities into government-type activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City’s operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City’s General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and

expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the specific financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The fiduciary statements provide financial information about the activities of the funds for which the City acts solely as agent.

Together, all these statements are now called the Basic Financial Statements; formerly they were called the General Purpose Financial Statements.

### *The City-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental Activities**—All of the City's basic services are considered to be governmental activities. These services are shown as Functions or Programs on the Statement of Activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

The City's governmental activities also include the activities of two separate legal entities, the Redevelopment Agency of the City of Santa Clara and the City of Santa Clara Public Facilities Financing Corporation, because the City is financially accountable for these entities.

- **Business-Type Activities**—All of the City's enterprise activities, including the electric utility, water utility, sewer utility, water recycling, solid waste, cemetery, Sports and Open Space Authority, Santa Clara Golf & Tennis Club and Santa Clara Convention Center are considered Business-Type Activities. Unlike governmental services, these services are supported by fees paid by users based on the amount of the service they use.

City-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

### *Fund Financial Statements*

Fund Financial Statements include Governmental, Enterprise and Internal Service Funds as discussed below.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all non-Major Funds summarized and presented only in a single column. The Non-Major Fund Statements are presented towards the end of this report.

Major Funds present the primary activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

There are two Major Governmental Funds presented in the fund financial statements, the General Fund and the Redevelopment Agency.

Because the focus of individual governmental funds is narrower than that of the governmental activities in the City-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the City-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major Funds that are Special Revenue Funds.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term. Proprietary funds provide the same type of information as the City-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's business-type activities as detailed above.

All of the City's enterprise funds are considered Major Funds and are presented individually in the Major Proprietary Fund financial statements. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for the acquisition and maintenance of its fleet of vehicles, for its management of non-dispatch communications systems and for its self-insurance. The activities of the City's Internal Service Funds are reported in the Proprietary fund financial statements. Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

#### *Fiduciary Statements*

The City is the trustee or agent for certain employee benefit funds, assessment districts and other entities. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

## FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets of the City's Governmental Activities and Business-Type Activities (Table 1), results of Governmental and Business Activities (Table 3 and Table 4 respectively) and changes in net assets for the City's Governmental Activities and Business-Type Activities (Table 2). These are presented in the City-wide Statement of Net Assets and Statement of Activities.

**Table 1**  
**Governmental and Business-Type Net Assets**  
**(In Millions)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash and investments	\$ 331	\$ 355	\$ 476	\$ 506	\$ 807	\$ 861
Other assets	84	80	168	165	252	245
Capital assets	<u>544</u>	<u>533</u>	<u>547</u>	<u>551</u>	<u>1,091</u>	<u>1,084</u>
<b>Total assets</b>	<b><u>959</u></b>	<b><u>968</u></b>	<b><u>1,191</u></b>	<b><u>1,222</u></b>	<b><u>2,150</u></b>	<b><u>2,190</u></b>
Long-term debt outstanding	229	235	265	275	494	510
Other liabilities	<u>43</u>	<u>42</u>	<u>94</u>	<u>84</u>	<u>137</u>	<u>126</u>
<b>Total liabilities</b>	<b><u>272</u></b>	<b><u>277</u></b>	<b><u>359</u></b>	<b><u>359</u></b>	<b><u>631</u></b>	<b><u>636</u></b>
Net assets:						
Invested in capital assets, net of debt	442	407	310	312	752	719
Restricted	166	167	1	3	167	170
Unrestricted	<u>79</u>	<u>116</u>	<u>521</u>	<u>548</u>	<u>600</u>	<u>664</u>
<b>Total net assets</b>	<b><u>\$ 687</u></b>	<b><u>\$ 691</u></b>	<b><u>\$ 832</u></b>	<b><u>\$ 863</u></b>	<b><u>\$ 1,519</u></b>	<b><u>\$ 1,554</u></b>

### City Governmental Activities

The City's net assets from Governmental Activities decreased to \$687 million in fiscal year 2005-06 from \$691 million in fiscal year 2004-05. This decrease is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Cash and Investments declined due to expenditures exceeding receipts in the General Fund and Non-Major Governmental Funds including Public Buildings and Parks and Recreation Facilities Capital Projects funds.
- Capital assets net of depreciation increased as a result of capital spending on new City facilities. They are discussed in the Capital Assets section on page 23.
- Net assets invested in capital assets net of related debt were \$442 million in fiscal year 2005-06 an increase of \$35 million compared to the prior year. This was due to an

increase of \$11 million of capital assets and a reduction of \$24 million of related debt liabilities.

- Restricted net assets are the portion of net assets which are legally restricted by grantors, debt covenants, contract or law. As shown in Table 1, on June 30, 2006, restricted net assets totaled \$166 million. This is comprised of \$43 million restricted to the acquisition of capital assets, \$19 million for payment of debt service, \$91 million that may only be used for redevelopment activities and \$11 million restricted for other purposes. In fiscal year 2005-06, restricted net assets decreased by \$1 million compared to the prior year. This was due to an expanded commitment on new City facilities in the amount of \$9 million, an increase of \$5 million in the scheduled debt service payment during the coming months, and an increase of \$4 million in the amounts restricted for special programs and trusts.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations or for other purposes without constraints established by debt covenants or other legal requirements. Unrestricted net assets amounted to \$79 million on June 30, 2006. This is a decrease of \$37 million from the prior year and is due to primarily to the increases in the capital assets and restricted net assets, described above.

Fiscal Year 2005-06 Governmental Activities Statement of Activities presents program expenses, program revenues and general revenues in detail. All elements in the Changes in Governmental Net Assets are summarized in Table 2.

Total revenues from Governmental Activities including transfers were \$155 million in fiscal year 2005-06. As the Sources of Revenue, Chart 1, shows, \$38 million, or 25% of the City's fiscal year 2005-06 governmental revenues was from sales tax, \$39 million, or 25% from ad valorem property taxes, and \$13 million or 8% from contribution in lieu of taxes. Other taxes, fees and revenues accounted for the remainder. Property tax revenue increases can be attributed to the continued increase in residential property valuations, strong residential sales volume and the end of declines in valuations of the City's commercial and industrial sectors. Sales tax revenue also improved in fiscal year 2005-06 reflecting strong consumer spending and some improvement in business-to-business activity in the local economy. While investment earnings declined \$3 million from \$34 million to \$31 million due to lower cash balances, unrecognized losses on the fair value of investments increased \$16 million. As the City's policy is to hold to maturity, it does not expect those losses to be realized.

#### **Fiscal Year 2005-06 Governmental Activities**

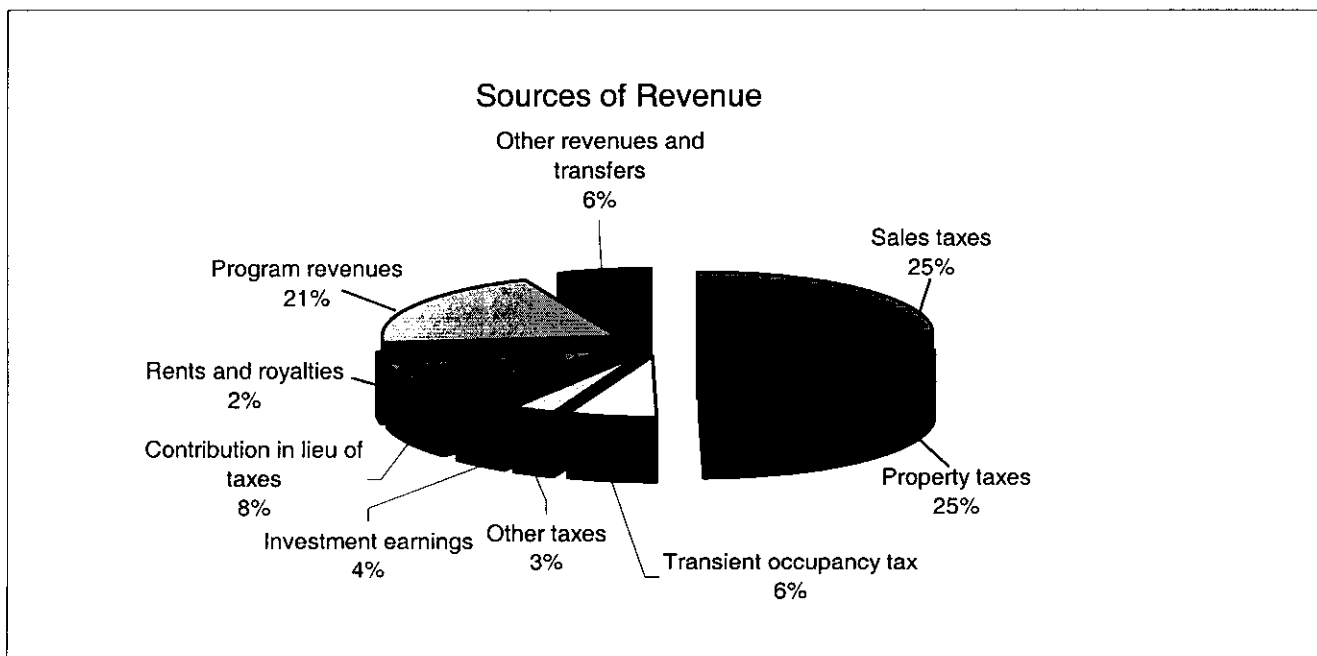
- In fiscal year 2005-06, General Administration department expenses were \$12 million, a decrease of \$5 million from the prior year. This was due to a decrease of \$3 million in expendable project costs and an increase of \$2 million of General Administration expenses allocated to Business-type activities.
- Public Work department expenses were \$27 million, a decrease of \$4 million compared to the prior year. This was due to \$2 million decrease in the retirement of capital assets and \$2 million decrease in depreciation expenses of capital assets.
- Police department expenses were \$39 million, an increase of \$3 million over the prior year. This was due to \$2 million increase in salaries and benefits and \$1 million increase in depreciation expenses of capital assets.

- Fire Department expenses were \$32 million, an increase of \$3 million over the prior year. This was due to \$3 million increase in salaries and benefits.
- In fiscal year 2005-06, the City added \$29 million in governmental capital assets and \$15 million in business-type capital assets as shown in Table 7.

Table 2 shows that total governmental revenues excluding transfers were down \$6 million in fiscal year 2005-06. General revenues decreased \$6 million while program revenues remained unchanged. The analysis of Business-Type Activities summarized in Table 2 is presented on pages 11 and 12.

In fiscal year 2005-06 total government expenses of \$159 million decreased by \$1 million compared to prior year. Decreases in General Administration and Public Works were largely offset by increased expenditures in Police and Fire as explained above. The overall result is a decrease in net assets of governmental activities of \$4 million in fiscal year 2005-06.

**Chart 1**



**Table 2**  
**Governmental and Business-Type Changes in Net Assets**  
**(In Millions)**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 23	\$ 22	\$ 523	\$ 418	\$ 546	\$ 440
Operating grants and contributions	5	5	-	-	5	5
Capital grants and contributions	4	5	1	2	5	7
General revenues:						-
Taxes:						-
Sales	38	36			38	36
Ad valorem property	39	40			39	40
Transient occupancy	10	8			10	8
Other	5	6			5	6
Motor vehicle in lieu	1	2			1	2
Contribution in lieu of taxes	13	12			13	12
Investment Earnings	12	15	19	19	31	34
Net (decrease) in fair value of investments	(6)	-	(11)	(1)	(17)	(1)
Rents and royalties	3	3	2	3	5	6
Other	4	3	-	-	4	3
Total revenues	<u>\$ 151</u>	<u>\$ 157</u>	<u>\$ 534</u>	<u>\$ 441</u>	<u>\$ 685</u>	<u>\$ 598</u>
Expenses:						
General administration	\$ 12	\$ 17			\$ 12	\$ 17
City clerk	1	1			1	1
City attorney	1	1			1	1
Human resources	2	2			2	2
Finance	6	6			6	6
Public works	27	31			27	31
Parks and recreation	12	11			12	11
Public safety:					-	-
Police	39	36			39	36
Fire	32	29			32	29
Planning and inspection	6	5			6	5
Library	8	8			8	8
Interest on long term debt	13	13			13	13
Utilities:						
Electric -						
Retail			250	194	250	194
Wholesale			249	166	249	166
Water			20	19	20	19
Sewer			15	9	15	9
Water Recycling			1	1	1	1
Solid Waste			16	14	16	14
Cemetery			1	1	1	1
Sports and Open Space Authority			-	-	-	-
Santa Clara Golf and Tennis Club			3	3	3	3
Santa Clara Convention Center			6	6	6	6
Total expenses	<u>\$ 159</u>	<u>\$ 160</u>	<u>\$ 561</u>	<u>\$ 413</u>	<u>\$ 720</u>	<u>\$ 573</u>
Increase (decrease) in net assets before transfers	(8)	(3)	(27)	28	(35)	25
Transfers in (out)	4	2	(4)	(2)	-	-
Increase (decrease) in net assets	<u>(4)</u>	<u>(1)</u>	<u>(31)</u>	<u>26</u>	<u>(35)</u>	<u>25</u>
Net assets - 7/1	691	692	863	837	1,554	1,529
Net assets - 6/30	<u>\$ 687</u>	<u>\$ 691</u>	<u>\$ 832</u>	<u>\$ 863</u>	<u>\$ 1,519</u>	<u>\$ 1,554</u>

Table 3 presents the net expense of each of the City's largest programs. Net expense is defined as total program cost less the revenues generated by those specific activities. The revenues of some activities may be greater than their costs.

**Table 3**  
**Governmental Activities**  
**(In Millions)**

	Net (Expense) Revenue From Services	
	2006	2005
General administration	(\$2)	(\$7)
City clerk	(1)	(1)
City attorney	(1)	(1)
Human resources	(2)	(2)
Finance	(6)	(6)
Public works	(20)	(22)
Parks and recreation	(9)	(9)
Public safety:		
Police	(37)	(34)
Fire	(29)	(27)
Planning & inspection	1	1
Library	(7)	(7)
Interest on long term debt	(13)	(13)
<b>Net (Expense) Revenue</b>	<b><u>(\$126)</u></b>	<b><u>(\$128)</u></b>

Net expenses decreased \$2 million in fiscal year 2005-06. Police and Fire salary and benefit increased slightly, offset by decreased indirect expense allocation in General Administration and decreased depreciation expense in Public Works.

### **City Business Type Activities**

Table 1 above also shows net assets of the City's business-type activities. In fiscal year 2005-06 net assets of the City's business-type activities decreased \$35 million as explained below:

- Cash and Investments for reasons indicated on page 7.
- Unrestricted net assets were \$27 million lower than last year's balance due to net losses in the Electric Utility of \$26 million and Sewer Utility of \$2 million with net income in other enterprise funds.
- Investment in capital assets, net of debt decreased \$2 million over the prior year with the completion of major capital projects and recording of depreciation expenses in the Electric Fund.



Table 2 above also presents Changes in Net Assets of Business-Type Activities. Total program revenues increased \$104 million in fiscal year 2005-06 mainly due to revenues from Electric wholesale activities which increased \$83 million.

- In fiscal year 2005-06, Charges for services were \$523 million, an increase of \$105 million compared to the prior year. This was due to increases in utility rates and higher sales of wholesale power.

Total expenses of Business-type activities increased \$147 million, mostly as a result of increases in Electric Utility expenses.

- In fiscal year 2005-06 Retail expenses of the Electric Utility were \$250 million, an increase of \$56 million over the prior year. This was due to increases in purchase power costs and operating expenses associated with the operation of newly completed DVR Power Plant, and one-time settlement payment with Enron.
- Wholesale expenses of the Electric Utility were \$249 million, an increase of \$83 million over the prior year. This was due to higher energy cost resulting from the loss of low-cost energy from Western Area Power Administration and Bonneville Power Administration due to the expiration of certain power purchase and exchange agreements.
- Sewer utility expenses were \$15 million, an increase of \$6 million over the prior year. This was due to loss incurred in its share of equity in the joint venture.

Total general revenues were higher in fiscal 2005-06 as a result of increases in charges for services as explained above.

Table 4 provides the net expenses of each of the City's enterprise funds. Net expense is defined as total program cost less the revenues generated by each enterprise fund. The expenses of some activities may be greater than their respective revenues.

- In fiscal year 2005-06, Retail net expenses of the Electric Utility were \$39 million, an increase \$38 million over the prior year due to increases in Retail expenses and Indirect Expenses Allocation which was partially offset by the rise in Charges for Services.

**Table 4**  
**Business-Type Activities**  
**(In Millions)**

	Net (Expense) Revenue From Services	
	2006	2005
Utilities:		
Electric		
Retail	(\$39)	(\$1)
Wholesale	\$6	\$5
Water	-	-
Sewer	(\$2)	\$3
Water Recycling	-	-
Solid Waste	(\$1)	-
Cemetery	-	-
Sports and Open Space Authority	\$1	\$1
Santa Clara Golf and Tennis Club	-	-
Santa Clara Convention Center	(\$2)	(\$1)
<b>Net (Expense) Revenue</b>	<b>(\$37)</b>	<b>\$7</b>

## The City's Fund Financial Statements

The following table is a summary of the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance and the Enterprise Funds Statement of Net Assets and Statement of Revenue, and Expenses and Changes in Net Assets. The detailed activity is included in the basic financial statements section of this report.

**Table 5**  
**Financial Highlights at Fund Level**  
**In Millions)**

	<u>2006</u>	<u>2005</u>
Governmental Funds		
Total assets	\$396	\$419
Total liabilities	88	91
Total fund balances	308	328
Total revenues	163	164
Total expenditures	186	186
Total other financing sources (uses)	3	1
Enterprise Funds		
Total assets	1,198	1,229
Total liabilities	366	366
Total net assets	832	864
Total revenues	545	452
Total expenditures	572	423
Total other financing sources (uses)	(4)	(2)

### *Governmental Funds*

As of June 30, 2006, the City's governmental funds reported combined fund balances of \$308 million, which is a decrease of \$20 million compared to last year. The decrease of \$10 million in the General Fund balance resulted from transfers to other City funds, a majority of which were to capital and debt service funds. The General Fund also transferred funds to subsidize operations of certain funds. The Redevelopment Agency Fund's balance increased \$116 thousand. Other governmental funds fund balances decreased \$10 million in fiscal year 2005-06.

Governmental fund revenues decreased to \$163 million this year from the prior year's total of \$164 million. Of the total \$1 million decrease, the General Fund increased \$5 million; RDA declined \$6. The General Fund accounted for \$116 million of this year's revenues, while Redevelopment Agency Fund revenues were at \$36 million and other governmental fund revenues were at \$12 million.

Governmental fund expenditures were \$186 million in fiscal year 2005-06, essentially unchanged from the prior year. Of this amount, \$122 million was expended by the General Fund, \$28 million by the Redevelopment Agency Fund, and \$36 million by other governmental funds.

### *Enterprise Funds*

Enterprise Fund net assets totaled \$832 million at the end of the fiscal year, a decrease of \$32 million over the \$864 million reported in fiscal year 2004-05. Enterprise operating revenues were \$257 million this year, up \$21 million from last year's revenues of \$236 million. Enterprise Fund operating expenses were \$305 million this year, up \$58 million from the prior year's \$247 million.

Non-operating revenues were \$288 million, up \$72 million from the prior year due to wholesale energy revenues. Non-operating expenses were \$267 million, up \$89 million from the prior year due to wholesale power purchases.

## **Analyses of Major Governmental Funds**

### **General Fund**

#### ***Revenues***

General Fund direct revenues of \$115.6 million were \$4.8 million more than the prior fiscal year, principally due to the reasons set forth below. Direct revenues were also \$8.9 million higher than budgeted amounts and can be attributed to several key categories.

#### ***Property Tax***

Property tax revenue for fiscal year 2005-06 was \$22.1 million compared to \$20.1 million in fiscal year 2004-05, an increase of approximately \$2.0 million or 9.9%. The major factor contributing to this increase was the continued strength of the local residential real estate market along with the stabilization of the commercial and industrial sectors which had experienced negative reassessments over the last few years. In addition, the City continued to receive property tax payments in lieu of some of its Vehicle-in-Lieu Fee revenues as per the State budget resolution.

#### ***Sales Tax***

Sales tax is the City's largest revenue source and accounts for approximately 32% of direct General Fund revenues. Sales tax revenue for fiscal year 2005-06 was \$38.1 million, an increase of 6.6% over fiscal year 2004-05. This is positive news and reflects an improving local economy. Recovery was particularly strong in the consumer sector, led by auto sales. The business-to-business sector while less robust than at the beginning of the decade, also showed improvements and was led by the electronic equipment sales.

#### ***Other Taxes***

Revenue from other taxes was \$14.2 million in fiscal year 2005-06 compared with approximately \$11.7 million in fiscal year 2004-05, an increase of 21%. The major reason for this was an increase in the Transient Occupancy Tax from \$7.9 million in fiscal year 2004-05 to \$9.6 million in fiscal year 2005-06, an increase of 22.1%. This was due to improved occupancy rates coupled with increases in room rates at hotels/motels and is an indication that the local travel sector continues to rebound.

#### *Licenses, Permits and Fines and Penalties*

Revenues for licenses, permits, fines and penalties were \$4.9 million in fiscal year 2005-06 compared with \$5.2 million in fiscal year 2004-05, a decrease of approximately 5.4%. These figures reflect a decrease in construction activity linked to building and related permits.

#### *Charges for Services*

Charges for Services were \$18.3 million in fiscal year 2005-06 compared with \$13.2 million in fiscal year 2004-05, an increase of approximately \$5.1 million or 38.5%. The primary source of this revenue growth came from Interdepartmental Service Charges and can be attributed to an increase in the reimbursement rate for services provided to non-General Fund departments. There was also some increase from recreation and other charges due to both increases in fees and activity compared to the prior year.

#### *Contribution In-lieu of Taxes (CLT)*

Contribution in lieu of taxes was approximately \$12.9 million in fiscal year 2005-06, an increase of \$.9 million over fiscal 2004-05. The results reflect slightly higher demand for electrical power as well as a midyear increase in Electric Utility rates compared to the prior year.

#### *Interest and Rents*

Interest and rent revenues were \$7.3 million in fiscal year 2005-06 compared to \$9.6 million in fiscal year 2004-05, a decrease of approximately \$2.3 million or 23.3%. The main reason for this net decrease is a decrease in the size of the City's investment portfolio earnings allocated to the General Fund combined with the lower interest rate environment.

### ***Expenditures***

General Fund expenditures in fiscal year 2005-06 were \$121.7 million compared with \$119.5 million in fiscal year 2004-05, an increase of 1.9%. The major reasons for increases in expenditures are:

#### *Salary and Benefits*

Salary and benefits expenditures were \$96 million in fiscal year 2005-06 compared with \$94.7 million in fiscal year 2004-05, an increase of \$1.3 million or 1.4%. The increase is primarily due to the increased cost of retirement benefits and was partially offset by the City's continued management hiring freeze. The total full-time benefited employee count in General Fund was 780.7 in fiscal year 2005-06, a net decrease of 2 full-time equivalent (FTE) positions compared with fiscal year 2004-05.

#### *All Other Operating Expenditures*

Other operating expenditures, including materials, services, and supplies, internal service fund charges and minor capital outlays, were \$25.7 million in fiscal year 2005-06 compared with \$24.8 million in the prior fiscal year, an increase of \$0.9 million or 4.0%. The increase was largely in the contractual services, materials and supplies expenditure category. There were also increases in the internal services fund charges. The City continued to implement various cost saving measures in fiscal year 2005-06 to minimize expenditure increases in the General Fund.

### **Transfers**

Transfers out of the General Fund increased to \$16.6 million in fiscal year 2005-06 from \$16.1 million, compared to the prior fiscal year, principally due to higher transfers to the Capital Project Funds. Debt service at \$5.9 million remains a major transfer out.

### **Fund Balance**

As of June 30, 2006, total General Fund fund balance was \$67.5 million, down \$11.3 million from fiscal year 2004-05. The Table 6A shows the breakdown of various components to fiscal 2005-06 General Fund fund balance and changes from the prior fiscal year.

**Table 6A**  
**General Fund Balance**  
**(In Millions)**

	<u>2006</u>	<u>2005</u> <u>as restated</u>	<u>Net Change</u>
Encumbrance, advances to other funds, and inventory	\$ 19.7	\$ 16.2	\$ 3.5
Designated for working capital	15.1	13.8	1.3
Designated for capital projects	11.3	20.9	(9.6)
Designated for land sale proceeds	16.4	14.7	1.7
Designated for building inspections	5.0	4.8	0.2
Designated for downtown revitalization	-	0.8	(0.8)
Undesignated	-	6.2	(6.2)
Total General Fund Fund Balance	<u>\$ 67.5</u>	<u>\$ 77.4</u>	<u>\$ (9.9)</u>

### **General Fund Budget Comparison**

Included in the Required Supplementary Information is the General Fund Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Legal Basis) for the year ended June 30, 2006. During the year, Council took action to amend the adopted General Fund budget.

The following is a summary of the impact of these actions:

**Table 6B**  
**General Fund Budget for the Year Ended June 30, 2006**  
**(In Millions)**

	Original Budgeted Amount	Final Budgeted Amount	Net Change
Revenues	\$ 111.9	\$ 112.0	\$ 0.1
Expenditures	119.2	122.4	3.2
Other Financing Sources (Uses)	(1.4)	(4.9)	(3.5)

The increase in budgeted revenues was due to unanticipated receipts that resulted in higher expenditure. The increase in budgeted expenditures was mostly due to appropriation of grant funds received for augmentation of public safety and library services. The increase in budgeted other financing uses was for transfer out to Capital Project Funds and Workers' Compensation Funds funded from the Capital Projects reserve balances.

### **Redevelopment Agency Fund**

The purpose of the Redevelopment Agency (Agency) is to eliminate blight in its project areas, both of which are in the City, while ensuring an adequate stock of low and moderate income housing. The Agency's power to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities has expired as of January 1, 2004. The Agency's power of eminent domain in Bayshore North and University project areas has expired as of December 31, 1994. The agency may enter into development agreements with developers and others to further its purpose. The Agency's operations are funded primarily by property tax increments generated by increased assessments in the redevelopment areas.

The Redevelopment Agency Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas, as well as debt service expenditures on the Agency's debt.

The Agency's revenues were \$35.7 million in fiscal year 2005-06, a decrease of \$6.7 million over the previous fiscal year. Property tax increment revenues were \$17.3 million in fiscal year 2005-06, a decrease of \$2.5 million over the previous fiscal year due mainly to a decline in property valuation in the Agency's project areas. In addition, the Agency was required to

transfer \$2.4 million to the State Education Revenue Augmentation Reform Fund (ERAF) to help balance the State budget. Revenue from use of assets, primarily lease revenues, were \$19.6 million in fiscal year 2005-06, essentially flat compared to last year. Interest earnings were down as a result of an adjustment in the fair market value of pooled cash and investment.

Agency expenditures were \$28.2 million in fiscal year 2005-06, a decrease of \$10.1 million. This was due primarily to a decrease in capital outlay and principal payments for debt service of \$2.8 million and \$7.6 million, respectively. This was partially offset by an increase in general administration costs of \$0.9 million.

The Agency's fiscal year end fund balance of \$175.7 million may be used only for redevelopment purposes; of this amount, \$50.9 million is reserved for encumbrances, debt service, housing and land held for development and \$124.8 million is designated for capital projects and supplemental housing.

### **Other Governmental Funds**

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

### **Analyses of Enterprise Funds**

#### **Electric Utility (Silicon Valley Power)**

Retail operating revenues were \$202.2 million in fiscal year 2005-06 compared with \$183.1 million in fiscal year 2004-05, an increase of approximately 10.4%. The main reason for the increase was higher power consumption by the industrial/commercial sector combined with a midyear increase in utility rates to 5%.

In December 2005, the City Council adopted a 5% rate increase to be effective January 2006 and a further 5% increase to be effective July 2006. The primary reason for this increase is rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Power Administration.

Retail operating expenses were \$249.3 million in fiscal year 2005-06 compared with \$192.9 million in fiscal year 2004-05, an increase of \$56.4 million or 29.2%. The operating expenses were higher primarily due to an increase in purchased power costs, salaries and benefits costs, and operating and depreciation expenses associated with the operation of newly completed Donald Von Raesfeld (DVR) Power Plant. The City made a one-time payment of \$36.5 million to Enron in accordance with the Settlement Agreement between the City and Enron and the FERC Trial Staff, ending four years of litigation. A portion of the \$36.5 million had been recognized as expense in prior years, resulting in a net expense of \$21.5 million for fiscal year 2005-06.

Revenues of wholesale power operations increased to \$255.2 million in fiscal year, up from \$170.2 million in fiscal year 2004-05. The cost of wholesale power purchases increased as well from \$165.8 million in fiscal year 2004-05 to \$249.5 million in current fiscal year. The wholesale power market has stabilized in recent years compared to the peak years of the power crisis experienced by California in 2001.



Interest revenues increased to \$18.0 million in fiscal year 2005-06 compared to the prior year's level of \$17.6 million, primarily due to the Electric Utility representing a larger portion of the investment portfolio. Interest expense went up to \$12.1 million from \$7.7 million as the City paid a full year of interest on the 2003 Series A and B Revenue Bonds issued to finance DVR Power Plant.

In fiscal year 2005-06, the Provision for Disputed Schedule Coordination Services (SCS) was further reduced by \$10.9 million resulting from the settlement of the dispute between the City and Pacific Gas and Electric Company (PG&E). The City provided \$24 million for the SCS dispute in fiscal year 2003-04 that was reduced by \$13.1 million in fiscal year 2004-05. The additional reduction of \$10.9 million in the current fiscal year decreased the Provision for Disputed Schedule Coordination Services to zero balance.

The Electric Utility Fund had \$646.3 million in net assets at June 30, 2006, a decrease of \$26.4 million from the prior fiscal year. Of this amount, \$234.5 million was invested in capital assets, net of related debt; \$492 thousand was restricted as to use; and \$411.3 million was unrestricted. The Electric Utility Fund is a participant in a number of joint ventures such as Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR), and Central California Power Agency No. 1 (CCPA).

### **Water Utility**

Operating revenues were \$18.9 million in fiscal year 2005-06 compared with \$18.1 million in fiscal year 2004-05, an increase of 4.4%. A 4.0% water rate hike in fiscal year 2005-06 and a slight increase in customers' water usage contributed to higher revenues.

Operating expenses were \$19.5 million in fiscal year 2005-06 compared with \$18.8 million in fiscal year 2005-06, an increase of 3.7%. The major reason for the higher expenditures was the rise in purchase cost of treated water from the wholesale water agencies as a result of increases in wholesale water rates. This is reflected in the materials, supplies and services category which showed \$14.6 million in expenses in fiscal year 2005-06 compared with \$14 million in fiscal year 2004-05, an increase of 4.3%.

The Water Utility Fund's net assets at June 30, 2006 were \$39.7 million, an increase of \$610 thousand over net assets from the prior fiscal year.

### **Sewer Utility**

Operating revenues of the Sewer Utility increased to \$11.8 million in fiscal year 2005-06, up from \$11.1 million in fiscal year 2004-05 an increase of 6.3%. A 6% sewer rate hike instituted in fiscal year 2005-06 and a minor increase in flow for commercial/industrial discharges accounted for higher operating revenues.

Operating expenses were \$10.6 million in fiscal year 2005-06 compared with \$11.1 million in fiscal year 2004-05. The main reason for this decrease was materials, supplies and services, which went down \$521 thousand due mainly to charges by the San Jose Santa Clara Water Pollution Control Plant which provides treatment and disposal of the City's sewage. The investment in capital assets in fiscal year 2005-06 was \$10.3 million, a decrease of \$200 thousand from prior fiscal year.

The Sewer Fund, together with the City of San Jose, owns the San Jose/Santa Clara Water Pollution Control Plant, which is administered by the City of San Jose. The Fund's ownership share is approximately 16.6% of the assets, capital and operating costs. In fiscal year 2005-06 the City of San Jose reported that the Fund's equity in the Plant had decreased by \$4.5 million. The Sewer Fund reports these changes in equity in its statement of activities as operating revenues and expenses.

### **Water Recycling**

Operating revenues increased by \$100 thousand this year from \$858 thousand in the prior year. Operating expenses were \$645 thousand, an increase of \$23 thousand. Net assets as of June 30, 2006 were \$2.6 million.

### **Solid Waste**

Operating revenues were \$14.7 million in fiscal year 2005-06 compared with \$14.4 million in fiscal year 2004-05, mainly due to an approximately 1.8% rate increase implemented during the year. Operating expenses were \$15.6 million in fiscal year 2005-06 compared with \$14.3 million in fiscal year 2004-05. Net assets (deficit) at June 30, 2006 were (\$3.4) million.

### **Cemetery**

This Fund accounts for the Mission City Memorial Park's operations. Operating revenues were \$0.5 million in fiscal year 2005-06, reflecting a \$15 thousand decrease from prior fiscal year. Operating expenses were \$756 thousand in fiscal year 2005-06, a decrease of \$13 thousand compared to fiscal year 2004-05. Net assets at June 30, 2006 were \$(142) thousand. This fund usually runs a deficit in its operation and capital activities, which is funded by an advance from the General Fund.

### **Sports and Open Space Authority**

This Fund accounts for the acquisition and preservation of open space within the City and the development of local sports activities. Operating revenues were \$1.3 million in fiscal year 2005-06 unchanged from the prior fiscal year. Net assets at June 30, 2006 were \$4.0 million.

### **Santa Clara Golf and Tennis Club**

This Fund accounts for the operations of the City's public golf course. Operating revenues were \$3.0 million in fiscal year 2005-06 compared with \$2.9 million in fiscal year 2004-05. Operating expenses were \$2.6 million in fiscal year 2005-06 up slightly from the prior fiscal year. Net assets at June 30, 2006 were \$7 million.

### **Santa Clara Convention Center**

This Fund accounts for the operations of the Santa Clara Convention Center. Operating revenues were \$4.0 million in fiscal year 2005-06 compared with \$3.5 million in fiscal year 2004-05. Increases in events and conference related activities accounted for the increase in revenues. Operating expenses increased slightly to \$6.2 million in fiscal year 2005-06 compared with \$6.0 million in fiscal year 2004-05. Net assets at June 30, 2006 were \$20.1 million, all of which were invested in capital assets.

## CAPITAL ASSETS

At June 30, 2006 the City had \$544 million, net of depreciation, invested in a broad range of capital assets used in the Governmental Activities, and \$547 million, net of depreciation, in Business-Type Assets, as shown in Table 7 below (further detail may be found in Note 10 to the financial statements):

**Table 7**  
**Capital Assets at Year-End**  
**(In Millions)**

	2006	2005	Net Change
<b><i>Governmental Activities:</i></b>			
Land	\$ 105	\$ 99	\$ 6
Construction in progress	26	15	11
Buildings and improvements	129	126	3
Other improvements	17	16	1
Machinery and equipment	63	62	1
Infrastructure	391	384	7
Less accumulated depreciation	(187)	(169)	(18)
<b>Totals</b>	<b>\$ 544</b>	<b>\$ 533</b>	<b>\$ 11</b>
<b><i>Business-type Activities:</i></b>			
Land	\$ 17	\$ 17	\$ -
Construction in progress	6	4	2
Buildings and improvements	820	808	12
Machinery and equipment	15	14	1
Less accumulated depreciation	(311)	(292)	(19)
<b>Totals</b>	<b>\$ 547</b>	<b>\$ 551</b>	<b>\$ (4)</b>

The Capital Improvement Project Budget for fiscal year 2005-06 and Five Year Financial Plan for fiscal year 2005-06 through fiscal year 2009-10 contain more detailed discussions of Capital Projects planned for the City of Santa Clara. The following are some of the major projects that were active in fiscal year 2005-06:

### City Projects:

- Transportation system improvements – These projects include street widening, resurfacing, traffic lights and other improvements throughout the City with a continuing appropriation of \$26.9 million. Costs incurred during fiscal year 2005-06 were \$6.1 million.
- Replace ML C/e-plus Network Controller and Zetron Fire Alert System – This project which upgrades the network equipment related to the City's 911- dispatch function is authorized at \$492 thousand, of which \$32 thousand has been expended as of June 30, 2006.

#### Redevelopment Agency Projects:

- San Tomas Aquino Creek Trail - This project which is for construction of a pedestrian and bicycle trail at an authorized cost of \$19.5 million, had costs incurred as of June 30, 2006, of \$11.6 million.
- Convention Center Ballroom - This project which adds 24,000 square feet of ballroom space to the Santa Clara Convention Center at an authorized cost of \$17.5 million, had costs incurred as of June 30, 2006, of \$202 thousand.

#### Business-Type Activities Projects:

- San Jose Santa Clara Water Pollution Control Plant – This project provides funds for Master Plan improvements including wastewater reclamation mandated by environmental regulatory agencies, at an authorized cost of \$12.8 million. Costs incurred as of June 30, 2006, are \$10.3 million.
- 230 kV Transmission Project - This project to design and construct a 230 kV bus and transmission lines to connect the Northern Receiving station at an authorized cost of \$36.2 million. Costs incurred as of June 30, 2006, are \$35.4 million.
- Other electric projects include a Broadband Communication System Fiber Optics Network, expansion/renovation of transmission lines and distribution systems, and other projects.

### **DEBT ADMINISTRATION**

Each of the City's debt issues is discussed in detail in Note 11 to the financial statements. At June 30, the City's debt was comprised of the following:

**Table 8  
Outstanding Debt  
(In Millions)**

	Balance	Balance	Net Change
<b>Governmental Activity Debt:</b>			
Special Assessment Debt with City commitment	\$ 6	\$ 7	\$ (1)
Local Government Finance Authority Bonds	-	-	-
Redevelopment Tax Allocation Bonds	140	140	-
Senior Secured Refunding Notes	-	2	(2)
Certificates of Participation 1997	13	14	(1)
Insurance Funding Bonds Series 1997	20	20	-
Certificates of Participation 2002A	24	24	-
Refunding Certificates of Participation, Series 2002B	26	28	(2)
<b>Business-type Debt:</b>			
Electric Utility Revenue Bonds, net of unamortized discount	265	275	(10)
State Water Resource Control Board Loan	nil	nil	nil
<b>Total Debt</b>	<b>\$ 494</b>	<b>\$ 510</b>	<b>\$ 16</b>

## **SPECIAL ASSESSMENT DISTRICT DEBT**

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2006, a total of \$6.8 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

## **ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA California 95050, telephone (408) 615-2340.

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# ***Basic Financial Statements***



## CITY OF SANTA CLARA

### STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects, Debt Service and Permanent Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating interfund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net (expense) revenue of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Santa Clara, the City of Santa Clara Sports and Open Space Authority, and the City of Santa Clara Public Facilities Financing Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for these Agency activities.

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**CITY OF SANTA CLARA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 198,442,038	\$ 443,939,323	\$ 642,381,361
Investments with fiscal agent	41,544,270	13,051,383	54,595,653
Receivables (net of allowance for uncollectibles):			
Accounts	3,101,136	49,466,758	52,567,894
Interest	2,263,709	4,431,808	6,695,517
Intergovernmental	5,970,165	75,000	6,045,165
Internal balances (Note 9D)	(2,120,549)	2,120,549	-
Materials, supplies and prepaids	2,008,661	4,399,428	6,408,089
Land held for redevelopment (Note 2H)	7,103,770	-	7,103,770
Total Current Assets	258,313,200	517,484,249	775,797,449
<b>Noncurrent Assets</b>			
Cash designated for construction (Note 8)	90,770,239	2,449,568	93,219,807
Investment with fiscal agent (Note 8)	209,414	14,459,823	14,669,237
Deposits (Note 8)	-	2,206,597	2,206,597
Internal balances (Note 9D)	5,534,854	(5,534,854)	-
Long Term Special assessments	5,015,000	-	5,015,000
Long Term Loans, net of reserves (Note 2AA)	55,119,348	-	55,119,348
Capital assets (Note 10):			
Land and construction in progress	131,630,889	23,160,256	154,791,145
Capital assets being depreciated, net	412,811,701	523,816,597	936,628,298
Investment in joint ventures (Note 13)	-	101,158,908	101,158,908
Other	327,657	11,701,383	12,029,040
Total Noncurrent Assets	701,419,102	673,418,278	1,374,837,380
Total Assets	959,732,302	1,190,902,527	2,150,634,829
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accrued liabilities	24,822,715	80,459,414	105,282,129
Interest payable	3,750,058	4,573,109	8,323,167
Accrued compensated absences (Note 2K)	1,444,179	410,075	1,854,254
Unearned revenue	2,939,496	442,359	3,381,855
Landfill closure liability (Note 12)	-	315,000	315,000
Long-term debt-Due within one year (Note 11)	8,985,001	11,887,319	20,872,320
Total Current Liabilities	41,941,449	98,087,276	140,028,725
<b>Noncurrent Liabilities</b>			
Accrued compensated absences (Note 2K)	9,923,259	2,817,701	12,740,960
Landfill closure liabilities (Note 12)	-	5,110,066	5,110,066
Long-term debt-Due in more than one year (Note 11)	220,460,000	252,871,403	473,331,403
Total Noncurrent Liabilities	230,383,259	260,799,170	491,182,429
Total Liabilities	272,324,708	358,886,446	631,211,154
<b>NET ASSETS (Note 19)</b>			
Invested in capital assets, net of related debt	442,140,801	309,902,005	752,042,806
Restricted for:			
Capital projects	44,377,806	-	44,377,806
Debt service	18,756,036	-	18,756,036
Redevelopment activities	91,080,636	-	91,080,636
Other purposes	11,469,156	1,413,275	12,882,431
Total Restricted Net Assets	165,683,634	1,413,275	167,096,909
Unrestricted Net Assets	79,583,159	520,700,801	600,283,960
Total Net Assets	\$ 687,407,594	\$ 832,016,081	\$ 1,519,423,675

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:					
General Administration	\$ 19,931,388	\$ (8,080,189)	\$ 9,887,735	\$ 333	\$ -
City Clerk	565,663	-	-	70,341	-
City Attorney	1,158,769	-	2,975	-	-
Human Resources	1,722,171	-	-	-	-
Finance	6,284,392	-	669,659	-	-
Public Works	27,420,150	-	1,688,746	1,956,639	3,761,417
Parks and Recreation	11,925,159	-	2,375,816	73,917	-
Public Safety:					
Police	39,217,957	-	1,289,264	469,244	-
Fire	31,667,929	-	1,838,455	466,255	-
Planning & Inspection	5,698,805	-	4,777,579	1,793,166	-
Library	7,959,623	-	211,188	587,836	-
Interest on long term debt	12,727,169	-	-	-	-
Total Governmental Activities	166,279,175	(8,080,189)	22,741,417	5,417,731	3,761,417
Business-type Activities:					
Utilities:					
Electric -					
Retail	244,951,718	5,523,986	211,110,696	-	-
Wholesale	249,500,523	-	255,187,805	-	-
Water	18,421,361	1,160,886	19,645,549	-	-
Sewer	14,474,736	648,903	12,948,083	-	-
Water Recycling	947,249	-	966,165	-	244,026
Solid Waste	14,886,189	702,800	14,688,405	-	-
Cemetery	729,076	40,819	510,587	-	-
Sports and Open Space Authority	33,774	2,795	1,287,373	-	-
Santa Clara Golf and Tennis Club	2,696,981	-	3,019,792	-	-
Santa Clara Convention Center	6,162,633	-	4,032,795	-	195,548
Total Business-type Activities	552,804,240	8,080,189	523,397,250	-	439,574
Total	\$ 719,083,415	\$ -	\$ 546,138,667	\$ 5,417,731	\$ 4,200,991
General Revenues:					
Taxes:					
Sales					
Ad valorem property					
Transient occupancy					
Other					
Intergovernmental, unrestricted:					
Motor vehicle in-lieu					
Contribution in lieu of taxes					
Investment earnings					
Net (decrease) in the fair value of investments					
Rents and royalties					
Other					
Transfers (Note 9A)					
Total General Revenues and Transfers					
Change in Net Assets					
Net Assets - Beginning					
Net Assets - Ending					

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>			
General Administration	\$ (1,963,131)	\$ -	\$ (1,963,131)
City Clerk	(495,322)	-	(495,322)
City Attorney	(1,155,794)	-	(1,155,794)
Human Resources	(1,722,171)	-	(1,722,171)
Finance	(5,614,733)	-	(5,614,733)
Public Works	(20,013,348)	-	(20,013,348)
Parks and Recreation	(9,475,426)	-	(9,475,426)
<b>Public Safety:</b>			
Police	(37,459,449)	-	(37,459,449)
Fire	(29,363,219)	-	(29,363,219)
Planning & Inspection	871,940	-	871,940
Library	(7,160,599)	-	(7,160,599)
Interest on long term debt	(12,727,169)	-	(12,727,169)
<b>Total Governmental Activities</b>	<b>(126,278,421)</b>	<b>-</b>	<b>(126,278,421)</b>
<b>Business-type Activities:</b>			
<b>Utilities:</b>			
Electric -			
Retail	-	(39,365,008)	(39,365,008)
Wholesale	-	5,687,282	5,687,282
Water	-	63,302	63,302
Sewer	-	(2,175,556)	(2,175,556)
Water Recycling	-	262,942	262,942
Solid Waste	-	(900,584)	(900,584)
Cemetery	-	(259,308)	(259,308)
Sports and Open Space Authority	-	1,250,804	1,250,804
Santa Clara Golf and Tennis Club	-	322,811	322,811
Santa Clara Convention Center	-	(1,934,290)	(1,934,290)
<b>Total Business-type Activities</b>	<b>-</b>	<b>(37,047,605)</b>	<b>(37,047,605)</b>
<b>Total</b>	<b>(126,278,421)</b>	<b>(37,047,605)</b>	<b>(163,326,026)</b>
<b>General Revenues:</b>			
<b>Taxes:</b>			
Sales	38,066,053	-	38,066,053
Ad valorem property	39,387,921	-	39,387,921
Transient occupancy	9,601,273	-	9,601,273
Other	4,855,788	-	4,855,788
<b>Intergovernmental, unrestricted:</b>			
Motor vehicle in-lieu	667,982	-	667,982
Contribution in lieu of taxes	12,860,316	-	12,860,316
Investment earnings	12,122,611	19,421,146	31,543,757
Net (decrease) in the fair value of investments	(5,472,830)	(11,123,161)	(16,595,991)
Rents and royalties	2,824,739	2,176,509	5,001,248
Other	3,802,358	-	3,802,358
Transfers (Note 9A)	4,463,315	(4,463,315)	-
<b>Total General Revenues and Transfers</b>	<b>123,179,526</b>	<b>6,011,179</b>	<b>129,190,705</b>
<b>Change in Net Assets</b>	<b>(3,098,895)</b>	<b>(31,036,426)</b>	<b>(34,135,321)</b>
<b>Net Assets - Beginning</b>	<b>690,506,489</b>	<b>863,052,507</b>	<b>1,553,558,996</b>
<b>Net Assets - Ending</b>	<b>\$ 687,407,594</b>	<b>\$ 832,016,081</b>	<b>\$ 1,519,423,675</b>

See accompanying notes to basic financial statements.

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<b>FUND FINANCIAL STATEMENTS</b>
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The funds described below were determined to be Major Funds by the City in fiscal year 2005-06. Individual non-major funds may be found in the Supplementary section.

<b>MAJOR GOVERNMENTAL FUNDS</b>
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#### **GENERAL FUND**

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds, and the related expenditures.

#### **REDEVELOPMENT AGENCY FUND**

The Redevelopment Agency Fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2006**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 50,524,410	\$ 76,832,097	\$ 53,405,038	\$ 180,761,545
Investments with fiscal agent - current	-	5,567,449	1,128	5,568,577
Cash designated for construction	-	87,466,067	3,304,172	90,770,239
Receivables (net of allowance for uncollectibles):				
Accounts	2,599,240	38,336	30,269	2,667,845
Interest	1,286,663	827,419	139,233	2,253,315
Loans	1,043,136	46,398,590	11,029,547	58,471,273
Special assessments	-	-	5,015,000	5,015,000
Intergovernmental	2,196,930	-	3,773,235	5,970,165
Due from other funds (Note 9B)	1,192,258	-	9,972	1,202,230
Materials, supplies and prepaids	1,681,105	-	-	1,681,105
Land held for redevelopment (Note 2H)	-	7,103,770	-	7,103,770
Investments with fiscal agent - noncurrent (Note 8)	-	9,652,424	9,527,948	19,180,372
Advances to other funds (Note 9C)	14,966,179	-	-	14,966,179
Other	24,407	303,250	-	327,657
<b>Total Assets</b>	<b>\$ 75,514,328</b>	<b>\$ 234,189,402</b>	<b>\$ 86,235,542</b>	<b>\$ 395,939,272</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 6,233,120	\$ 1,218,159	\$ 2,913,029	\$ 10,364,308
Interest payable	-	1,043,136	-	1,043,136
Accrued compensated absences (Note 2K)	1,427,200	-	-	1,427,200
Due to other funds (Note 9)	-	-	92,800	92,800
Deferred revenue	396,051	46,750,355	18,236,226	65,382,632
Advances from other funds (Note 9C)	-	9,431,325	-	9,431,325
<b>Total Liabilities</b>	<b>8,056,371</b>	<b>58,442,975</b>	<b>21,242,055</b>	<b>87,741,401</b>
<b>FUND BALANCES</b>				
Reserved for encumbrances	79,776	4,680,268	3,926,183	8,686,227
Reserved for debt service	-	8,059,760	10,696,276	18,756,036
Reserved for low and moderate income housing	-	31,056,493	-	31,056,493
Reserved for special programs	1,818,536	-	5,644,661	7,463,197
Reserved for inventory, petty cash and receivables	2,791,831	-	-	2,791,831
Reserved for advances	14,966,178	-	-	14,966,178
Reserved for land held for redevelopment	-	7,103,770	-	7,103,770
Unreserved	-	-	-	-
Designated for working capital	15,146,331	-	-	15,146,331
Designated for capital projects	-	-	-	-
Reported in:				
General fund	11,326,424	-	-	11,326,424
Special revenue funds	-	-	7,873,457	7,873,457
Capital projects funds	-	116,547,017	36,955,865	153,502,882
Designated for investment of land sale proceeds	16,362,405	-	-	16,362,405
Designated for supplemental housing	-	8,299,119	-	8,299,119
Designated for building inspection and other	4,966,476	-	-	4,966,476
Undesignated:				
Reported in:				
General fund	-	-	-	-
Special revenue funds	-	-	(102,955)	(102,955)
<b>TOTAL FUND BALANCES</b>	<b>67,457,957</b>	<b>175,746,427</b>	<b>64,993,487</b>	<b>308,197,871</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 75,514,328</b>	<b>\$ 234,189,402</b>	<b>\$ 86,235,542</b>	<b>\$ 395,939,272</b>

See accompanying notes to basic financial statements.



**CITY OF SANTA CLARA**  
**Reconciliation of Fund Balances to Governmental Activities Net Assets**  
**June 30, 2006**

Governmental fund balance from prior page	\$ 308,197,871
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	544,442,590
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**ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS**

Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	14,736,367
Cash and investments with fiscal agent	19,948,861
Accounts receivable	433,291
Interest receivable	10,394
Materials, supplies and prepaids	327,556
Accounts payable	(14,458,407)
Compensated absences	(133,644)
Internal balances	(3,229,979)

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	62,443,136
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**LONG TERM LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Reserve against conditional grant balances	(3,351,925)
Long-term debt	(229,445,001)
Interest payable	(2,706,922)
Non-current portion of compensated absences	(9,806,594)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

	<u>\$ 687,407,594</u>
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See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Sales	\$ 38,066,053	\$ -	\$ -	\$ 38,066,053
Ad valorem	22,050,262	17,337,659	-	39,387,921
Transient occupancy	9,601,273	-	-	9,601,273
Other	4,557,635	-	1,158,153	5,715,788
Licenses, permits, fines, and penalties	4,946,382	-	-	4,946,382
Intergovernmental	1,439,118	-	6,763,048	8,202,166
Charges for services	18,324,120	-	1,556,628	19,880,748
Contributions in-lieu of taxes	12,860,316	-	-	12,860,316
Interest and rents	7,328,574	19,568,970	1,355,600	28,253,144
Net increase (decrease) in the fair value of Other	(3,656,293) 76,200	(1,854,272) 675,375	37,735 1,238,491	(5,472,830) 1,990,066
Total Revenues	<u>115,593,640</u>	<u>35,727,732</u>	<u>12,109,655</u>	<u>163,431,027</u>
<b>EXPENDITURES</b>				
Current:				
General Administration	12,973,269	10,635,661	3,475,325	27,084,255
City Clerk	553,647	-	-	553,647
City Attorney	1,136,990	-	-	1,136,990
Human Resources	1,724,096	-	-	1,724,096
Finance	6,206,019	-	-	6,206,019
Public Works	13,505,008	-	1,998,079	15,503,087
Parks and Recreation	10,614,364	-	71,159	10,685,523
Public Safety:				
Police	34,475,638	-	361,218	34,836,856
Fire	28,609,814	-	502,481	29,112,295
Planning & Inspection	5,410,206	-	-	5,410,206
Library	6,471,671	-	270,817	6,742,488
Capital outlay	-	6,934,315	22,419,546	29,353,861
Debt service (Note 11)				
Principal payments	-	1,712,728	4,205,000	5,917,728
Interest and fiscal fees	-	8,895,870	3,272,227	12,168,097
Bond Cost Expense	-	-	13,637	13,637
Total Expenditures	<u>121,680,722</u>	<u>28,178,574</u>	<u>36,589,489</u>	<u>186,448,785</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,087,082)</u>	<u>7,549,158</u>	<u>(24,479,834)</u>	<u>(23,017,758)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	1,701,124	-	-	1,701,124
Transfers in (Note 9A)	11,066,023	-	15,551,274	26,617,297
Transfers (out) (Note 9A)	(16,628,767)	(7,433,422)	(1,054,296)	(25,116,485)
Total Other Financing Sources (Uses)	<u>(3,861,620)</u>	<u>(7,433,422)</u>	<u>14,496,978</u>	<u>3,201,936</u>
NET CHANGE IN FUND BALANCES	<u>(9,948,702)</u>	<u>115,736</u>	<u>(9,982,856)</u>	<u>(19,815,822)</u>
Fund balances at beginning of period (1)	<u>77,406,659</u>	<u>175,630,691</u>	<u>74,976,343</u>	<u>328,013,693</u>
FUND BALANCES AT END OF PERIOD	<u>\$ 67,457,957</u>	<u>\$ 175,746,427</u>	<u>\$ 64,993,487</u>	<u>\$ 308,197,871</u>

See accompanying notes to financial statements

(1) (as restated. See Note 2K)

**CITY OF SANTA CLARA**  
**Reconciliation of the**  
**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**  
**with the**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (19,815,822)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

**CAPITAL ASSET TRANSACTIONS**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	29,353,861
--	------------

Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of \$1,408,742 which has already been allocated to serviced funds.)

	(18,509,977)
--	--------------

Retirements and transfers of capital assets (net of internal service fund retirements of \$50,419)

	(409,456)
--	-----------

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.

	1,758,002
--	-----------

**LONG TERM DEBT PROCEEDS AND PAYMENTS**

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	5,917,728
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**ACCRUAL OF NON-CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Provision for reserve of conditional grants	(310,673)
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Non-current portion of compensated absences	(603,238)
---	-----------

Interest payable	59,290
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Deferred revenue	1,916,242
------------------	-----------

**ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY**

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds, net	(1,783,150)
--	-------------

Change in Net Assets of Internal Service Funds reported with Business-Type Activities	(671,702)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (3,098,895)</u>
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See accompanying notes to basic financial statements.

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## MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through use charges.

The City has identified the funds below as major proprietary funds in fiscal year 2005-06.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

### ELECTRIC UTILITY FUND

This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

### WATER UTILITY FUND

This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

### SEWER UTILITY FUND

The Sewer Utility fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

### WATER RECYCLING UTILITY FUND

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. . It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

### SOLID WASTE FUND

This fund accounts for the administration of the City's garbage and rubbish collection service.

### CEMETERY FUND

This fund accounts for the activities of the Mission City Memorial Park.

### SPORTS AND OPEN SPACE AUTHORITY FUND (SOSA)

SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City and the development of local sports activities.

### SANTA CLARA COLF AND TENNIS CLUB FUND (SCG&TC)

The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

### SANTA CLARA CONVENTION CENTER FUND

The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
6/30/2006**

	<b>Business-type Activities-Enterprise Funds</b>			
	<b>UTILITY FUNDS</b>			
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Water Recycling Utility</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 410,823,204	\$ 10,116,112	\$ 17,627,825	\$ 3,789,663
Investments with fiscal agent	13,051,383	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	45,013,408	1,869,444	1,013,174	16,698
Interest	4,109,430	107,704	179,016	35,658
Intergovernmental	-	-	-	75,000
Due from other funds (Note 9B)	1,585,124	85,495	545,413	-
Materials, supplies and prepaids	3,718,883	609,250	-	-
Total current assets	<u>478,301,432</u>	<u>12,788,005</u>	<u>19,365,428</u>	<u>3,917,019</u>
Cash designated for construction (Note 8)	-	303,090	1,507,553	-
Investment with fiscal agent (Note 8)	14,459,823	-	-	-
Deposits (Note 8)	2,206,597	-	-	-
Capital assets (Note 10):				
Land and improvements	10,443,186	661,268	725,328	-
Buildings and improvements	667,944,890	56,199,233	24,126,573	-
Equipment	7,420,806	3,385,985	1,340,394	-
Construction in progress	5,255,784	702,643	77,410	-
	<u>691,064,666</u>	<u>60,949,129</u>	<u>26,269,705</u>	<u>-</u>
Accumulated depreciation	219,465,264	32,558,729	16,018,269	-
	<u>471,599,402</u>	<u>28,390,400</u>	<u>10,251,436</u>	<u>-</u>
Investment in joint ventures (Note 13)	15,867,700	-	85,291,208	-
Other assets	10,743,268	409,813	269,089	-
Total assets	<u>993,178,222</u>	<u>41,891,308</u>	<u>116,684,714</u>	<u>3,917,019</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	75,517,670	1,516,464	63,444	1,190,266
Interest payable	4,573,109	-	-	-
Accrued compensated absences (Note 2K)	270,912	88,631	38,320	-
Due to other funds (Note 9B)	-	-	-	-
Deferred revenue	-	-	-	-
Current portion of landfill closure liability (Note 12)	-	-	-	-
Current portion of long-term debt (Note 11)	11,820,000	-	-	67,319
Total current liabilities	<u>92,181,691</u>	<u>1,605,095</u>	<u>101,764</u>	<u>1,257,585</u>
Advance from other funds (Note 9C)	-	-	-	-
Landfill closure liability (Note 12)	-	-	-	-
Long-term Comp Absences (Note 2K)	1,861,493	609,000	263,301	-
Long-term obligations (Note 11)	252,766,054	-	-	105,349
Total noncurrent liabilities	<u>254,627,547</u>	<u>609,000</u>	<u>263,301</u>	<u>105,349</u>
Total liabilities	<u>346,809,238</u>	<u>2,214,095</u>	<u>365,065</u>	<u>1,362,934</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	234,524,554	28,390,400	10,251,436	-
Restricted for contractual obligations	492,409	564,942	716	344,068
Unrestricted	411,352,021	10,721,871	106,067,497	2,210,017
Net Assets	<u>\$ 646,368,984</u>	<u>\$ 39,677,213</u>	<u>\$ 116,319,649</u>	<u>\$ 2,554,085</u>

Net assets of business-type activities

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
6/30/2006**

	<u>Solid Waste</u>	<u>Cemetery</u>	<u>Sports and Open Space Authority</u>	<u>Santa Clara Golf and Tennis Club</u>
<b>ASSETS</b>				
Current assets:				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 292,648	\$ 29,692	\$ 170,075	\$ 204,746
Investments with fiscal agent	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	1,214,270	-	-	-
Interest	-	-	-	-
Intergovernmental	-	-	-	-
Due from other funds (Note 9B)	868,552	135,423	-	-
Materials, supplies and prepaids	-	-	-	71,295
Total current assets	<u>2,375,470</u>	<u>165,115</u>	<u>170,075</u>	<u>276,041</u>
Cash designated for construction (Note 8)	<u>510,000</u>	<u>-</u>	<u>-</u>	<u>128,925</u>
Investment with fiscal agent (Note 8)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits (Note 8)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets (Note 10):				
Land and improvements	-	1,125,470	3,883,046	-
Buildings and improvements	127,362	1,124,994	-	23,491,302
Equipment	440,599	241,868	-	599,142
Construction in progress	153,427	-	-	132,694
	<u>721,388</u>	<u>2,492,332</u>	<u>3,883,046</u>	<u>24,223,138</u>
Accumulated depreciation	<u>413,471</u>	<u>979,711</u>	<u>-</u>	<u>13,316,042</u>
	<u>307,917</u>	<u>1,512,621</u>	<u>3,883,046</u>	<u>10,907,096</u>
Investment in joint ventures (Note 13)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other assets	<u>279,213</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>3,472,600</u>	<u>1,677,736</u>	<u>4,053,121</u>	<u>11,312,062</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	1,405,700	3,533	8,537	499,940
Interest payable	-	-	-	-
Accrued compensated absences (Note 2K)	5,106	7,106	-	-
Due to other funds (Note 9B)	-	-	-	-
Deferred revenue	-	-	-	-
Current portion of landfill closure liability (Note 12)	315,000	-	-	-
Current portion of long-term debt (Note 11)	-	-	-	-
Total current liabilities	<u>1,725,806</u>	<u>10,639</u>	<u>8,537</u>	<u>499,940</u>
Advance from other funds (Note 9C)	-	1,760,720	-	3,774,134
Landfill closure liability (Note 12)	5,110,066	-	-	-
Long-term Comp Absences (Note 2K)	35,082	48,825	-	-
Long-term obligations (Note 11)	-	-	-	-
Total noncurrent liabilities	<u>5,145,148</u>	<u>1,809,545</u>	<u>-</u>	<u>3,774,134</u>
Total liabilities	<u>6,870,954</u>	<u>1,820,184</u>	<u>8,537</u>	<u>4,274,074</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	307,917	1,512,621	3,883,046	10,907,096
Restricted for contractual obligations	510	-	10,630	-
Unrestricted	<u>(3,706,781)</u>	<u>(1,655,069)</u>	<u>150,908</u>	<u>(3,869,108)</u>
Net Assets	<u>\$ (3,398,354)</u>	<u>\$ (142,448)</u>	<u>\$ 4,044,584</u>	<u>\$ 7,037,988</u>

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
6/30/2006**

	Santa Clara Convention Center	TOTAL	Internal Service Funds (Note 2A)
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 1,455,913	\$ 444,509,878	\$ 14,165,812
Investments with fiscal agent	-	13,051,383	19,948,861
Receivables (net of allowance for uncollectibles):			
Accounts	339,764	49,466,758	433,291
Interest	-	4,431,808	10,394
Intergovernmental	-	75,000	
Due from other funds (Note 9B)	-	3,220,007	176,484
Materials, supplies and prepaids	-	4,399,428	327,556
Total current assets	<u>1,795,677</u>	<u>519,154,262</u>	<u>35,062,398</u>
Cash designated for construction (Note 8)	-	2,449,568	-
Investment with fiscal agent (Note 8)	-	14,459,823	-
Deposits (Note 8)	-	2,206,597	-
Capital assets (Note 10):			
Land and improvements	-	16,838,298	-
Buildings and improvements	46,683,858	819,698,212	-
Equipment	1,356,139	14,784,933	19,483,471
Construction in progress	-	6,321,958	-
Total capital assets	<u>48,039,997</u>	<u>857,643,401</u>	<u>19,483,471</u>
Accumulated depreciation	<u>27,915,062</u>	<u>310,666,548</u>	<u>15,082,662</u>
	<u>20,124,935</u>	<u>546,976,853</u>	<u>4,400,809</u>
Investment in joint ventures (Note 13)	-	101,158,908	-
Other assets	-	11,701,383	-
Total assets	<u>21,920,612</u>	<u>1,198,107,394</u>	<u>39,463,207</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued liabilities	253,860	80,459,414	14,458,407
Interest payable	-	4,573,109	-
Accrued compensated absences (Note 2K)	-	410,075	16,979
Due to other funds (Note 9B)	1,099,458	1,099,458	3,406,463
Deferred revenue	442,359	442,359	-
Current portion of landfill closure liability (Note 12)	-	315,000	-
Current portion of long-term debt (Note 11)	-	11,887,319	-
Total current liabilities	<u>1,795,677</u>	<u>99,186,734</u>	<u>17,881,849</u>
Advance from other funds (Note 9C)	-	5,534,854	-
Landfill closure liability (Note 12)	-	5,110,066	-
Long-term Comp Absences (Note 2K)	-	2,817,701	116,665
Long-term obligations (Note 11)	-	252,871,403	20,000,000
Total noncurrent liabilities	<u>-</u>	<u>266,334,024</u>	<u>20,116,665</u>
Total liabilities	<u>1,795,677</u>	<u>365,520,758</u>	<u>37,998,514</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	20,124,935	309,902,005	4,400,809
Restricted for contractual obligations	-	1,413,275	1,254,875
Unrestricted	-	521,271,356	(4,190,991)
Net Assets	<u>\$ 20,124,935</u>	<u>832,586,636</u>	<u>\$ 1,464,693</u>

(570,555)

\$ 832,016,081



**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Business-type Activities-Enterprise Funds</b>			
	<b>UTILITY FUNDS</b>			
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Water Recycling Utility</b>
Operating revenues:				
Charges for services	\$202,192,523	\$18,956,863	\$ 11,821,999	\$ 958,632
Rents and royalties	-	-	-	-
Insurance refunds and other	-	-	-	-
Other	-	-	-	-
Total operating revenues	<u>202,192,523</u>	<u>18,956,863</u>	<u>11,821,999</u>	<u>958,632</u>
Operating expenses:				
Salaries and benefits	16,485,581	3,771,377	1,669,182	95,045
Materials, services and supplies	215,706,156	14,637,243	8,422,187	550,060
General and administrative	-	-	-	-
Amortization	1,158,705	80,622	52,856	-
Depreciation	15,917,644	975,418	469,406	-
Total operating expenses	<u>249,268,086</u>	<u>19,464,660</u>	<u>10,613,631</u>	<u>645,105</u>
Operating income (loss)	<u>(47,075,563)</u>	<u>(507,797)</u>	<u>1,208,368</u>	<u>313,527</u>
Nonoperating revenues (expenses):				
Interest revenue	18,033,094	447,197	718,201	145,087
Net (decrease) in the fair value of investments	(10,376,482)	(273,338)	(473,341)	-
Rents and royalties	2,053,913	69,284	-	-
Joint project contribution	-	-	-	244,026
Other revenue	8,918,173	688,686	1,126,084	7,533
Interest expense	(12,127,360)	-	-	(9,526)
Other expense	(3,153,464)	-	-	(288,681)
Provision for disputed SCS charges (Note 18)	10,867,653	-	-	-
Equity in income (losses) of joint ventures	2,921,301	-	(4,469,399)	-
Gain (loss) on retirement of assets	-	(5,391)	(1,519)	-
Wholesale power sales	255,187,805	-	-	-
Wholesale power purchases	(249,500,523)	-	-	-
Total nonoperating revenues	<u>22,824,110</u>	<u>926,438</u>	<u>(3,099,974)</u>	<u>98,439</u>
Income (loss) before contributions and transfers	<u>(24,251,453)</u>	<u>418,641</u>	<u>(1,891,606)</u>	<u>411,966</u>
Contributions	-	-	-	-
Transfers in (Note 9A)	-	500,000	-	-
Transfers (out) (Note 9A)	<u>(2,191,131)</u>	<u>(308,889)</u>	<u>(138,489)</u>	<u>(503,730)</u>
Change in net assets	<u>(26,442,584)</u>	<u>609,752</u>	<u>(2,030,095)</u>	<u>(91,764)</u>
Total net assets-beginning	<u>672,811,568</u>	<u>39,067,461</u>	<u>118,349,744</u>	<u>2,645,849</u>
Total net assets-ending	<u>\$646,368,984</u>	<u>\$39,677,213</u>	<u>\$ 116,319,649</u>	<u>\$2,554,085</u>

Amounts reported for business-type activities in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service.  
Change in net assets of business-type activities

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Solid Waste</u>	<u>Cemetery</u>	<u>Sports and Open Space Authority</u>	<u>Santa Clara Golf and Tennis Club</u>
Operating revenues:				
Charges for services	\$14,349,225	\$ 510,587	\$ -	\$ 2,895,773
Rents and royalties	-	-	1,287,373	-
Insurance refunds and other	-	-	-	-
Other	339,180	-	-	124,019
Total operating revenues	<u>14,688,405</u>	<u>510,587</u>	<u>1,287,373</u>	<u>3,019,792</u>
Operating expenses:				
Salaries and benefits	743,453	503,790	8,070	835,103
Materials, services and supplies	14,760,286	215,445	28,499	901,464
General and administrative	-	-	-	-
Amortization	55,052	-	-	-
Depreciation	18,566	37,068	-	815,020
Total operating expenses	<u>15,577,357</u>	<u>756,303</u>	<u>36,569</u>	<u>2,551,587</u>
Operating income (loss)	<u>(888,952)</u>	<u>(245,716)</u>	<u>1,250,804</u>	<u>468,205</u>
Nonoperating revenues (expenses):				
Interest revenue	-	-	17,696	-
Net (decrease) in the fair value of investments	-	-	-	-
Rents and royalties	53,312	-	-	-
Joint project contribution	-	-	-	-
Other revenue	-	-	-	-
Interest expense	-	-	-	-
Other expense	-	-	-	-
Provision for disputed SCS charges (Note 18)	-	-	-	-
Equity in income (losses) of joint ventures	-	-	-	-
Gain (loss) on retirement of assets	-	-	-	(145,394)
Wholesale power sales	-	-	-	-
Wholesale power purchases	-	-	-	-
Total nonoperating revenues	<u>53,312</u>	<u>-</u>	<u>17,696</u>	<u>(145,394)</u>
Income (loss) before contributions and transfers	<u>(835,640)</u>	<u>(245,716)</u>	<u>1,268,500</u>	<u>322,811</u>
Contributions	-	-	-	-
Transfers in (Note 9A)	396,252	39,223	1,304,555	-
Transfers (out) (Note 9A)	<u>(123,459)</u>	<u>(20,481)</u>	<u>(2,591,927)</u>	<u>(1,304,555)</u>
Change in net assets	<u>(562,847)</u>	<u>(226,974)</u>	<u>(18,872)</u>	<u>(981,744)</u>
Total net assets-beginning	<u>(2,835,507)</u>	<u>84,526</u>	<u>4,063,456</u>	<u>8,019,732</u>
Total net assets-ending	<u><u>\$ (3,398,354)</u></u>	<u><u>\$ (142,448)</u></u>	<u><u>\$ 4,044,584</u></u>	<u><u>\$ 7,037,988</u></u>

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Santa Clara Convention Center	TOTAL	Governmental Activities- Internal Service Funds
Operating revenues:			
Charges for services	\$ 4,032,795	\$ 255,718,397	\$ 8,534,129
Rents and royalties	-	1,287,373	-
Insurance refunds and other	-	-	119,007
Other	-	463,199	-
Total operating revenues	<u>4,032,795</u>	<u>257,468,969</u>	<u>8,653,136</u>
Operating expenses:			
Salaries and benefits	3,328,480	27,440,081	1,955,440
Materials, services and supplies	1,210,502	256,431,842	2,206,249
General and administrative	-	-	8,514,533
Amortization	-	1,347,235	-
Depreciation	1,620,993	19,854,115	1,408,742
Total operating expenses	<u>6,159,975</u>	<u>305,073,273</u>	<u>14,084,964</u>
Operating income (loss)	<u>(2,127,180)</u>	<u>(47,604,304)</u>	<u>(5,431,828)</u>
Nonoperating revenues (expenses):			
Interest revenue	59,871	19,421,146	626,686
Net (decrease) in the fair value of investments	-	(11,123,161)	-
Rents and royalties	-	2,176,509	-
Joint project contribution	-	244,026	-
Other revenue	-	10,740,476	144,013
Interest expense	-	(12,136,886)	(604,725)
Other expense	-	(3,442,145)	-
Provision for disputed SCS charges (Note 18)	-	10,867,653	-
Equity in income (losses) of joint ventures	-	(1,548,098)	-
Gain (loss) on retirement of assets	-	(152,304)	(50,354)
Wholesale power sales	-	255,187,805	-
Wholesale power purchases	-	(249,500,523)	-
Total nonoperating revenues	<u>59,871</u>	<u>20,734,498</u>	<u>115,620</u>
Income (loss) before contributions and transfers	<u>(2,067,309)</u>	<u>(26,869,806)</u>	<u>(5,316,208)</u>
Contributions	195,548	195,548	-
Transfers in (Note 9A)	479,316	2,719,346	3,080,000
Transfers (out) (Note 9A)	-	(7,182,661)	(117,497)
Change in net assets	<u>(1,392,445)</u>	<u>(31,137,573)</u>	<u>(2,353,705)</u>
Total net assets-beginning	<u>21,517,380</u>	-	<u>3,818,398</u>
Total net assets-ending	<u>\$20,124,935</u>	-	<u>\$ 1,464,693</u>
		<u>101,147</u>	
		<u>\$ (31,036,426)</u>	

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Business-type Activities-Enterprise Funds			
	UTILITY FUNDS			
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 200,389,076	\$ 18,932,310	\$ 11,840,696	\$ 958,740
Payments to suppliers	(192,372,618)	(14,416,727)	(8,442,623)	(523,212)
Payments to employees	(16,907,406)	(3,919,638)	(1,665,861)	(98,267)
Internal activity - payments to other funds	-	-	-	-
Claims paid	-	-	-	-
Other receipts (payments)	5,509,208	688,686	1,126,084	7,533
Net cash provided by operating activities	(3,381,740)	1,284,631	2,858,296	344,794
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Wholesale resource sales	255,187,805	-	-	-
Wholesale resource purchases	(249,500,523)	-	-	-
Provision for disputed SCS charges	10,944,011	-	-	-
Charges for Joint project contribution	-	-	(1,284,883)	169,026
Expenses for joint project	-	-	-	(338,170)
Increase (decrease) in due from other funds	1,026,322	257,143	53,855	-
(Increase) decrease in due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Transfers in	-	500,000	-	-
Transfers (out)	(2,191,131)	(308,889)	(138,489)	(503,730)
Cash Flows from Noncapital Financing Activities	15,466,484	448,254	(1,369,517)	(672,874)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets, net	(21,159,865)	(2,078,251)	(329,812)	-
Principal payments on capital debt	(11,080,000)	-	-	(64,723)
Interest paid on capital debt	(11,383,485)	-	-	(9,526)
Cash Flows from Capital and Related Financing Activities	(43,623,350)	(2,078,251)	(329,812)	(74,249)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Rents and royalties received	2,394,742	69,284	-	-
Net (decrease) in the fair value of investments	(10,376,482)	(273,338)	(473,341)	-
Interest and dividends	18,978,649	472,697	785,675	156,498
Payments made by fiscal agent	22,333,380	-	-	-
Deposits made with fiscal agent	(22,813,957)	-	-	-
Cash Flows from Investing Activities	10,516,332	268,643	312,334	156,498
Net increase (decrease) in cash and cash equivalents	(21,022,274)	(76,723)	1,471,301	(245,831)
Cash and cash equivalents at beginning of period	431,845,478	10,495,925	17,664,077	4,035,494
Cash and cash equivalents at end of period	\$ 410,823,204	\$ 10,419,202	\$ 19,135,378	\$ 3,789,663
<b>Cash and cash equivalents:</b>				
Pooled cash and investments	\$ 410,823,204	\$ 10,116,112	\$ 17,627,825	\$ 3,789,663
Cash designated for construction	-	303,090	1,507,553	-
Total cash and cash equivalents	\$ 410,823,204	\$ 10,419,202	\$ 19,135,378	\$ 3,789,663
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (47,075,563)	\$ (507,797)	\$ 1,208,368	\$ 313,527
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization	1,158,705	80,622	52,856	-
Depreciation	15,917,644	975,418	469,406	-
Change in assets and liabilities:				
Receivables, net	(8,884,457)	(22,263)	18,697	108
Inventory	563,966	19,586	-	-
Accrued liabilities	28,990,212	53,404	(86,566)	23,626
Compensated absences	183,044	(3,025)	69,451	-
Deferred revenue	-	-	-	-
Other receipts (payments)	8,918,173	688,686	1,126,084	7,533
Other expenses	(3,153,464)	-	-	-
Net cash provided by operating activities	\$ (3,381,740)	\$ 1,284,631	\$ 2,858,296	\$ 344,794
<b>NONCASH TRANSACTIONS:</b>				
Joint Ventures				
Nonoperating income	\$ 2,921,301	\$ -	\$ (4,469,399)	\$ -

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Solid Waste</b>	<b>Cemetery</b>	<b>Sports and Open Space Authority</b>	<b>Santa Clara Golf and Tennis Club</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 14,442,450	\$ 510,587	\$ 1,295,780	\$ 2,895,773
Payments to suppliers	(14,358,316)	(212,919)	(28,499)	(1,051,135)
Payments to employees	(776,811)	(520,563)	(8,070)	(835,103)
Internal activity - payments to other funds	-	-	-	-
Claims paid	-	-	-	-
Other receipts (payments)	339,180	-	-	120,471
<b>Net cash provided by operating activities</b>	<b>(353,497)</b>	<b>(222,895)</b>	<b>1,259,191</b>	<b>1,130,006</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Wholesale resource sales	-	-	-	-
Wholesale resource purchases	-	-	-	-
Provision for disputed SCS charges	-	-	-	-
Charges for Joint project contribution	-	-	-	-
Expenses for joint project	-	-	-	-
Increase (decrease) in due from other funds	46,559	(165,352)	-	-
(Increase) decrease in due to other funds	-	(1,055)	-	-
Advances from other funds	-	410,940	-	-
Transfers in	396,252	39,223	1,304,555	-
Transfers (out)	(123,459)	(20,481)	(2,591,927)	(1,304,555)
<b>Cash Flows from Noncapital Financing Activities</b>	<b>319,352</b>	<b>263,275</b>	<b>(1,287,372)</b>	<b>(1,304,555)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets, net	(83,740)	(10,688)	-	45,955
Principal payments on capital debt	(229,723)	-	-	-
Interest paid on capital debt	-	-	-	-
<b>Cash Flows from Capital and Related Financing Activities</b>	<b>(313,463)</b>	<b>(10,688)</b>	<b>-</b>	<b>45,955</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Rents and royalties received	53,312	-	-	-
Net (decrease) in the fair value of investments	-	-	-	-
Interest and dividends	-	-	17,696	-
Payments made by fiscal agent	-	-	-	-
Deposits made with fiscal agent	-	-	-	-
<b>Cash Flows from Investing Activities</b>	<b>53,312</b>	<b>-</b>	<b>17,696</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(294,296)</b>	<b>29,692</b>	<b>(10,485)</b>	<b>(128,594)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,096,944</b>	<b>-</b>	<b>180,560</b>	<b>462,265</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 802,648</b>	<b>\$ 29,692</b>	<b>\$ 170,075</b>	<b>\$ 333,671</b>
<b>Cash and cash equivalents:</b>				
Pooled cash and investments	\$ 292,648	\$ 29,692	\$ 170,075	\$ 204,746
Cash designated for construction	510,000	-	-	128,925
<b>Total cash and cash equivalents</b>	<b>\$ 802,648</b>	<b>\$ 29,692</b>	<b>\$ 170,075</b>	<b>\$ 333,671</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (888,952)	\$ (245,716)	\$ 1,250,804	\$ 468,205
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization	55,052	-	-	-
Depreciation	18,566	37,067	-	815,020
Change in assets and liabilities:				
Receivables, net	93,225	-	-	-
Inventory	-	-	-	(3,548)
Accrued liabilities	372,570	(20,374)	8,387	(149,671)
Compensated absences	(3,958)	6,128	-	-
Deferred revenue	-	-	-	-
Other receipts (payments)	-	-	-	-
Other expenses	-	-	-	-
<b>Net cash provided by operating activities</b>	<b>\$ (353,497)</b>	<b>\$ (222,895)</b>	<b>\$ 1,259,191</b>	<b>\$ 1,130,006</b>
<b>NONCASH TRANSACTIONS:</b>				
Joint Ventures				
Nonoperating income	\$ -	\$ -	\$ -	\$ -

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Santa Clara Convention Center	Totals	Governmental Activities- Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,993,978	\$ 255,259,370	\$ 8,480,284
Payments to suppliers	(1,123,693)	(232,529,742)	(1,794,019)
Payments to employees	(3,328,480)	(28,060,199)	(1,959,383)
Internal activity - payments to other funds	-	-	(83,511)
Claims paid	-	-	(4,158,085)
Other receipts (payments)	-	7,791,162	144,012
Net cash provided by operating activities	(458,195)	2,460,591	629,298
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Wholesale resource sales	-	255,187,805	-
Wholesale resource purchases	-	(249,500,523)	-
Provision for disputed SCS charges	-	10,944,011	-
Charges for Joint project contribution	-	(1,115,857)	-
Expenses for joint project	-	(338,170)	-
Increase (decrease) in due from other funds	-	1,218,527	(1,395)
(Increase) decrease in due to other funds	102,536	101,481	(189,346)
Advances from other funds	-	410,940	-
Transfers in	479,316	2,719,346	3,080,000
Transfers (out)	-	(7,182,661)	(117,497)
Cash Flows from Noncapital Financing Activities	581,852	12,444,899	2,771,762
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets, net	(33,000)	(23,649,401)	(694,087)
Principal payments on capital debt	-	(11,374,446)	-
Interest paid on capital debt	-	(11,393,011)	(604,725)
Cash Flows from Capital and Related Financing Activities	(33,000)	(46,416,858)	(1,298,812)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Rents and royalties received	-	2,517,338	-
Net (decrease) in the fair value of investments	-	(11,123,161)	-
Interest and dividends	59,871	20,471,086	626,586
Payments made by fiscal agent	-	22,333,380	-
Deposits made with fiscal agent	-	(22,813,957)	(26,585)
Cash Flows from Investing Activities	59,871	11,384,686	600,001
Net increase (decrease) in cash and cash equivalents	150,528	(20,126,682)	2,702,249
Cash and cash equivalents at beginning of period	1,305,385	467,086,128	11,463,563
Cash and cash equivalents at end of period	\$ 1,455,913	\$ 446,959,446	\$ 14,165,812
Cash and cash equivalents:			
Pooled cash and investments	\$ 1,455,913	\$ 444,509,878	\$ 14,165,812
Cash designated for construction	-	2,449,568	-
Total cash and cash equivalents	\$ 1,455,913	\$ 446,959,446	\$ 14,165,812
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (2,127,180)	\$ (47,604,304)	\$ (5,431,828)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization	-	1,347,235	-
Depreciation	1,620,993	19,854,114	1,408,742
Change in assets and liabilities:			
Receivables, net	(31,161)	(8,825,851)	(53,846)
Inventory	-	580,004	(17,181)
Accrued liabilities	86,809	29,278,397	4,583,341
Compensated absences	-	251,640	(3,943)
Deferred revenue	(7,656)	(7,656)	144,013
Other receipts (payments)	-	10,740,476	-
Other expenses	-	(3,153,464)	-
Net cash provided by operating activities	\$ (458,195)	\$ 2,460,591	\$ 629,298
<b>NONCASH TRANSACTIONS:</b>			
Joint Ventures			
Nonoperating income	\$ -	\$ (1,548,098)	\$ -

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FIDUCIARY FUNDS
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Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.



**CITY OF SANTA CLARA  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Pooled cash and investments (Note 8)	\$16,429,659
Investments with fiscal agents (Note 8)	<u>210,582</u>
Total Assets	<u><u>\$16,640,241</u></u>
<b>LIABILITIES</b>	
Due to bondholders	\$ 3,283,050
Accrued liabilities	7,128,902
Refundable deposits	<u>6,228,289</u>
Total Liabilities	<u><u>\$16,640,241</u></u>

See accompanying notes to financial statements

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**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 1 – DEFINITION OF THE REPORTING ENTITY**

The City of Santa Clara (City), also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City Charter establishes the Council/Manager form of government. The City's citizens elect a City Council of seven citizens, six councilpersons and a Mayor elected at-large, who serve a term of four years each, and who, in turn, appoint a City Manager.

The City is located in the County of Santa Clara, California, approximately 45 miles southeast of San Francisco and three miles north of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. The City's population of 110,771 accounts for 6.25% of the total Santa Clara County population of 1.77 million.

The City provides a full range of municipal services, including police and fire, library, recreation, community services, public works, parks, sanitation, planning and community development, public improvements, electric, water and sewer services.

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units which are described below are all blended.

***The Redevelopment Agency of the City of Santa Clara***

The Redevelopment Agency of the City of Santa Clara (Agency) was established by the City Council in 1957 with the authority and responsibility for developing and upgrading blighted areas of the City. The members of the City Council are also members of the Agency's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement projects of the Redevelopment Plan. The City performs all accounting and administrative functions of the Agency. The financial activities of the Agency have been reported in the accompanying basic financial statements in the Redevelopment Agency Fund. Separate financial statements have been issued for the Agency and are available at Santa Clara City Hall in the City Clerk's Office.

***City of Santa Clara Sports and Open Space Authority***

The City of Santa Clara Sports and Open Space Authority (SOSA) was created by the City Council in 1974 for the acquisition and development of open space within the City. The members of the City Council are also members of SOSA's Board of Directors and, as such, are authorized to transact business and exercise power to purchase, lease or otherwise obtain and dispose of real and personal property, to acquire, construct, maintain, repair, manage and operate real and personal property, including leasing to private operators for commercial purposes, surplus space which is not economical to use for open space planning. The City performs all accounting and administrative functions. The operations of SOSA have been included in the accompanying basic financial statements in the Enterprise Fund.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**City of Santa Clara Public Facilities Financing Corporation**

The City of Santa Clara Public Facilities Financing Corporation (PFFC) was formed in 1997 for the purpose of issuing Certificates of Participation (COPs) to provide financing for the construction of the Police Administration Building. Members of the City Council are also members of the PFFC Board. Debt service on the COPs is secured by lease payments made by the City's General Fund to the PFFC for the use of the Police Administration Building site. In accordance with the lease agreement, the PFFC assigns lease payments received from the City to the trustee for payment to the certificate holders. The operations of PFFC have been included in the accompanying basic financial statements in the Debt Service Fund.

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

***A. Basic Financial Statements***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GAAP) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

***Government-wide Financial Statements:*** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Intefund Services provided and used are allocated to governmental and business-type activities, as appropriate. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements:*** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category— *governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses

***B. Major Funds***

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount to all governmental and enterprise fund for the same item. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

The City reported the following major governmental funds in the accompanying financial statements:

***General Fund*** - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

***Redevelopment Agency Fund*** – This fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

***Electric Utility Fund*** -This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Water Utility Fund*** -This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Sewer Utility Fund*** – This fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Water Recycling Utility Fund*** -This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

***Solid Waste Fund*** -This fund accounts for the administration of the city's garbage and rubbish collection service.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

***Cemetery Fund*** -This fund accounts for the activities of the Mission City Memorial Park.

***Sports and Open Space Authority Fund*** -SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City.

***Santa Clara Golf and Tennis Club Fund*** -The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

***Santa Clara Convention Center Fund*** -The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

The City also reports the following fund types:

***Internal Service funds.*** These funds account for maintenance of vehicles and communication and computer equipment; general liability and workers' compensation claims, all of which are provided to other departments on a cost-reimbursement basis.

***Fiduciary funds.*** These funds account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

### ***C. Basis of Accounting***

The government-wide financial statements and the fund category, proprietary, and fiduciary fund category financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency Funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The City allocates certain indirect expenses incurred by the General Government activity to those activities that benefit.

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board (GASB) pronouncements.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

During fiscal year 2005-06, the City implemented the GASB Statement No. 44, "*Economic Condition Reporting: The Statistical Section*," which provides guidance on the tables and narrative explanations in the statistical section, Statement No. 46, "*Net Assets Restricted by Enabling Legislation*," which requires that any constraints on the use of net assets as a result of enabling legislation be reported as restricted net assets, and Statement No. 47, "*Accounting for Termination Benefits*," which requires an employer to establish an accounting standard of recognizing a liability and expense for voluntary termination benefits.

***D. Pooled Cash and Investments***

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 8).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

***E. Interfund Transactions and Balances***

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The related receivables and payables are classified as "due from other funds," and "due to other funds" in the fund financial statements. Long-term interfund receivables and payables are recorded as advances.

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities, and are reported only in the government-wide financial statements.

***F. Inventory of Materials and Supplies***

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by all

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use. The General Fund inventory amount is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources.

***G. Restricted Assets***

Restricted assets are monies or other resources, the use of which is restricted by legal or contractual requirements.

***H. Land Held for Redevelopment***

The Redevelopment Agency has purchased parcel(s) of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for as investments on the balance sheet at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

Individual parcels which have experienced a market value decline are written down to estimated current market value. No appreciation is recorded if the current market value of an individual parcel exceeds cost.

***I. Capital Assets***

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding \$5,000 and with useful lives exceeding two years.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Public domain ("infrastructure") assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and traffic signals, have been capitalized and reported in the government-wide financial statements. Depreciation has been provided on all capital assets, including infrastructure, on a straight-line basis over the estimated useful lives of the assets.

	Useful Lives (Years)	Capitalization Threshold
Buildings	20-55	\$20,000
Improvements	20-50	20,000
Equipment	3-25	5,000
Infrastructure	20-50	20,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated (if applicable) over the remaining useful lives of the related capital assets.



**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Capital assets and the related obligations acquired under lease/purchase agreements are capitalized and accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*.

***J. Joint Ventures***

The City's Electric and Sewer Utility funds participate in several joint ventures. In accordance with GASB Statement No. 14 investments in these joint ventures are accounted for on the equity method (see Note 13). If the City's equity in net losses of joint ventures exceeds its investment, use of the equity method is suspended except to the extent that the City is obligated to provide further financial support or has guaranteed obligations of the joint ventures.

The City advances funds to certain of its joint ventures in the form of refundable advances, project advances and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

***K. Compensated Absences and Fund Balance Restatement***

**Compensated Absences**

Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts. The portion that is expected to pay out to the known retirees in the following year is accrued as an expense and current liability of General Fund. Vested or accumulated vacation leave and benefits of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation time is earned based on length of service in amounts ranging between 10 and 21 days per year. City employees are allowed to carry over unused vacation earned. The maximum amount of time that can be carried over varies, depending on the employee's rate of accrual, with an upper limit of 400 hours. Employees are paid for unused accruals upon termination of employment.

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Amounts of sick leave payments that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts in the financial statements. The portion that is expected to be paid out to the known retirees in the following year is accrued as an expense

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

and current liability of General Fund. Estimated sick leave payments of proprietary funds are recorded as an expense and liability of those funds.

The accrual for compensated absences comprised the following at June 30, 2006. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 10,782,843	\$ 2,976,137	\$ 13,758,980
Additions	1,776,980	354,068	2,131,048
Payments	(1,192,385)	(102,429)	(1,294,814)
Ending Balance	<u>\$ 11,367,438</u>	<u>\$ 3,227,776</u>	<u>\$ 14,595,214</u>
Current Portions	<u>\$ 1,444,179</u>	<u>\$ 410,075</u>	<u>\$ 1,854,254</u>

**Fund Balance Restatement**

During fiscal year 2004-05, the City implemented GASB Interpretation No. 6 and the balance of compensated absences previously reported in the General Fund is now reported in the City-Wide Statement of Net Assets. During fiscal year 2005-06, the City reported the current portion of the compensated absences as the current liabilities of General Fund. As a result, the General Fund's fund balance has been restated in the amount of \$(1,441,900).

***L. Risk Management***

To provide minimum liability protection, the City has \$20,000,000 of Insurance Funding Bonds outstanding. The self-insurance bonds are an effective alternative to liability insurance protection, adaptable to the City's insurance needs (see Note 11B). The City is self-insured up to \$20,000,000 for all general liability claims through the Insurance Funding Bonds and up to \$500,000 per claim for workers' compensation. These self-insurance programs are administered by outside agencies.

The City maintains excess worker's compensation insurance with a self-insured retention of \$500,000, and commercial insurance for workers' compensation claims over \$500,000 per claim with coverage up to \$100,000,000.

Additionally, the City maintains property damage coverage through the Public Entity Property Insurance Program (PEPIP), which has a plan limit of \$750,000,000. The City also maintains boiler and machinery property coverage of \$100,000,000 per occurrence in excess of self-insured amounts varying from \$2,500 to \$500,000 per occurrence. There were no reductions in the City's insurance coverage from last year. Also, no claims settlement in the past three fiscal years exceeded the City's insurance coverage.

Each year during the budgetary process, the City estimates the amount of liability claims to be paid in the ensuing year and appropriates that amount to the respective Internal Service Fund. As claims are paid during the year they are charged to the respective Internal Service Fund. At

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

the end of each fiscal year, the liability claims administrators determine the liabilities for claims in cases where such amounts are reasonably probable and measurable. Such liabilities are recorded and expensed in the Special Liability Insurance Claims and the Workers' Compensation Insurance Claims Internal Service Funds (see Note 20). Charges to the governmental and proprietary funds are based on the above estimates to accumulate monies in the Internal Service Funds for the payment of self-insured claims including claims incurred but not reported and operating expenses as well as premiums for insurance coverage in excess of self-insured claims.

***M. Long-term Obligations***

Long term obligations are reported in the Governmental Activities portion of the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

***N. Accounting for Encumbrances***

The City utilizes an encumbrance system of accounting wherein encumbrances outstanding at year end, for which the goods or services have not been received, are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City Charter requires recording encumbrances as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received. Under the modified accrual basis of accounting, in accordance with GAAP, expenditures are recorded when the goods or services are received. Adjustments to convert expenditures from the modified accrual basis to the budgetary basis are reflected in the schedule of revenues, expenditures, and changes in fund balances - budget and actual (non-GAAP legal basis) (see Note 3 and Required Supplementary Information).

***O. Contributed Assets***

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

***P. Net Assets and Fund Equity***

Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Reserved fund equity represents those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent the City's current plans for future use of financial resources.

***Q. Bond Discounts/Issuance Costs***

In governmental funds, bond discounts and issuance costs and governmental activities in the entity wide financial statement are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

***R. Property Taxes***

The State of California Constitution Article XIII A provides that the combined maximum tax rate on any given property may not exceed 1% of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A.

Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless there is a new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts and other districts.

Santa Clara County (County) assesses properties and bills and collects property taxes on behalf of the City as follows:

	Secured      Unsecured	
Valuation dates	January 1	January 1
Lien/levy dates	July 1	January 1
Due dates	50% on November 1, 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November), April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property and generally includes business use personal property.

The City participates in the Teeter Plan offered by the County whereby cities receive 100% of secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Property taxes levied are recorded as revenue when received from the County. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

The City's net assessed valuation for the year ended June 30, 2006, was \$18.7 billion, an increase of 4.06% compared to the previous year. The average tax rate was 1.15% per \$100 of assessed valuation.

***S. Contribution In-Lieu of Taxes***

Contribution in lieu of taxes is a general revenue of the governmental funds. It is levied on receipts of the City-owned and operated utilities in accordance with the City Charter. Non-City owned and operated utilities pay a franchise fee, which is also a governmental activities general revenue source.

***T. Special Assessment Districts with City Commitment***

Recognition of revenue related to noncurrent receivables of special assessment district funds is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes the City will ultimately receive value equal to the delinquent receivables. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

***U. Income Taxes***

The City falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

***V. Lease Agreements***

Any operating leases with scheduled rent increases are accounted for in accordance with SFAS Statement No. 13, *Accounting for Leases*.

***W. Arbitrage Rebate Liability***

Arbitrage rebate liabilities are included in accrued liabilities.

***X. Revenue Recognition***

Electric, Water, Sewer and Solid Waste Fund revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of a fiscal year, are recognized and accrued based on estimated consumption.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Governmental Activities revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

***Y. Non-exchange Transactions***

The City gives or receives value without directly receiving or giving equal value in exchange, including grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

***Z. Financial Instruments***

Financial instruments included in the City's basic financial statements, excluding cash and investments, consisted of accounts receivable, accrued liabilities, and bonds payable at June 30, 2005. The carrying amounts are a reasonable estimate of fair value.

***AA. Conditional Grants***

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for these loans as conditional grants in the City-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

***AB . Use of Estimates***

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING**

The budget of the City is a detailed operating plan that identifies estimated costs and activities in relation to estimated revenues. The budget includes: (1) the projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

The budget process is the mechanism through which policy decisions are made, implemented and controlled. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. The City is required to adopt a budget on or before June 30 for the ensuing fiscal year that begins July 1. Activities of the General Fund and the Maintenance Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying required supplementary information to the basic financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This includes a Five Year Financial Plan to aid in the planning and funding of operations and capital projects over the next five years.
2. Public hearings are conducted to obtain public comments.
3. The operating and capital budgets are legally enacted through the passage of a minute order and 5-Year Plan is approved.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The City Council may amend the budget by motion during the fiscal year. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The operating budget is presented at the object category level within programs of departments. The City Manager may transfer appropriations within the same object category of a department within the same fund without approval from the City Council. All other transfers require City Council approval, including a transfer from one object category to another object category of the same department.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations and transfers during the year. Budget amounts in the schedules of revenues, expenditures and changes in fund balances-budget and actual, include supplemental appropriations approved by the City Council during the year. Total expenditures of the General and the Maintenance Special Revenue Funds may not legally exceed fund appropriations.

All annual appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. For the actual GAAP basis financial statements, encumbered appropriations are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures, based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual Operating Budget, each year the City Council adopts a project length Capital Improvement Project budget.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES**

**A. Theme Park Ground Lease**

In June 1985, the Agency acquired the Great America Theme Park (Theme Park) and entered into a management agreement with Kings Entertainment Company (Kings) to manage the Theme Park operations. The Agency also entered into a Ground Lease and Assets Option Agreement (Option Agreement) with Kings Great America, Inc. (KGA), a wholly owned subsidiary of Kings. In June 1989, the Agency sold the Theme Park operations to Kings pursuant to the Option Agreement, as amended. The sale was effective retroactive to January 1, 1989. In addition to the Theme Park buildings, rides and equipment, Kings purchased all other operating assets and assumed all operating liabilities of the Theme Park as of January 1, 1989. Concurrent with the sale of the Theme Park, the Agency as lessor, entered into a Ground Lease with First Refusal Purchase Rights (Ground Lease) with Kings pursuant to the Option Agreement, as amended, to lease the real property used in the operations of the Theme Park. The Ground Lease expires on December 31, 2009, with an option to extend for 3 additional terms of 10 years each. In the event of a termination or expiration of the Ground Lease, the Agency has an option to repurchase the assets of the Theme Park.

In August 1992, the Agency assigned the Ground Lease to Paramount Parks, Inc. (Paramount) concurrent with Paramount's purchase of the operating assets of Kings. Paramount assumed the Ground Lease with no amendments or modifications. For the duration of the Ground Lease, and for 3 years after its expiration or termination, Paramount has the right to match any bona fide offer to buy or lease all or a portion of the leased property if the leased property is sold or leased for use as a theme park. The basic rent under the Ground Lease is \$5.3 million annually, payable in quarterly installments of \$1.325 million, plus additional rent equal to the sum of 5% of the annual gross revenues of the Theme Park in excess of \$56 million up to \$100 million plus 7.5% of the annual gross revenues in excess of \$100 million. For fiscal year ended June 30, 2006, Paramount paid additional rent of over \$264 thousand. The rent proceeds were applied to payoff the debt service of the 1989 Senior Secured Refunding Notes and the remaining balance were applied to paydown the obligation of the Agency as per Cooperation Agreement with the City dated May 2, 2000 and as amended per Amendment No.1 dated July 19, 2005 (see Note 11). The following schedule summarizes the approximate future minimum lease revenues to be received by the Agency from the Theme Park ground lease:

Fiscal Year	Minimum Lease Receipts
2007	\$5,300,000
2008	5,300,000
2009	5,300,000
Thereafter	2,650,000
	<u>\$18,550,000</u>



**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES (Continued)**

**B. TECHMART Ground Lease**

In May 1998, the Agency entered into a long-term ground lease of the TECHMART parcel with CarrAmerica. The lease has a fifty-five-year term with options for two additional ten-year terms. The Agency will receive \$1 million annual rent for each of the first ten years of the lease. Annual rent increases are scheduled as follows: 10% in the eleventh year and every five years thereafter during the initial term and 15% in the first and sixth year of each option term. Under the terms of the lease, CarrAmerica, assumed responsibility for all taxes and assessments levied against the TECHMART parcel and the Agency's interest in the lease is unsubordinated. The Agency is to pay all lease revenues received from the lease of the TECHMART parcel to the City's General Fund.

The following schedule summarizes the future lease payments to be received by the Agency from the TECHMART lease agreement with CarrAmerica:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$1,000,000
2008	1,000,000
2009	1,100,000
2010	1,100,000
2011	1,100,000
Thereafter	71,303,787
	<u>\$76,603,787</u>

**C. Santa Clara Hotel Ground Lease**

In July 1999, the Agency entered into a long-term ground lease with Santa Clara Hotel, LLC (Lessee) for the development of a certain portion of that piece of land – the North Parcel, and eventual operation of a high quality hotel and related facilities, amenities and improvements. The lease is for an initial term of fifty-five years. The Lessee has options to renew the lease for three additional periods of ten years. Under the terms of the lease, the Agency is entitled to receive specified amount of minimum rent subject to adjustment at times specified in the lease. Beginning with the third lease year, the Agency is also entitled to receive additional rent at amounts, which specified percentage of the gross revenues of the hotel exceeds the total amount of minimum rent for the applicable lease year. For lease year ended July 31, 2006, Lessee paid to the Agency about \$521K in minimum and percentage rents. Lessee has agreed to pay any impositions, including but not limited to taxes and assessments levied against the parcel. The Agency is to pay all lease revenues received from this lease to the City's Electric Utility Fund.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES (Continued)**

The following schedule summarizes the approximate minimum future revenues to be received by the Agency from this lease:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 400,000
2008	400,000
2009	400,000
2010	400,000
2011	400,000
Thereafter	17,233,333
	<u>\$19,233,333</u>

**D. Tasman Hotel Ground Lease**

In January 2001, the Agency entered into a Cooperation Agreement with the City, whereby the Agency will acquire from the City a certain property (Tasman Property) located at the intersection of Tasman Drive and Centennial Boulevard. The Agency has agreed to pay consideration to the City for the site in an amount equal to all rents that the Agency will receive from the eventual lease of the site.

In April 2001, The Agency entered into a Development and Disposition Agreement (DDA) with Tasman Hotel, LLC, (Developer). The DDA provides for the lease of the Tasman Property and the construction and operation by Developer on the parcel of a high quality limited service hotel and related facilities, amenities and improvement.

In February 2006, the Developer exercised its option to terminate the DDA. Its deposit, including applicable interest was returned subsequently and neither the Agency nor the Developer have any further rights against or liability to the other under the DDA thereafter.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY**

In April 2000, the Agency entered into a Cooperation Agreement (Agreement) with the City, whereby the Agency will acquire from the City a 42-acre site (site) bounded by Great America Parkway, Highway 237, Lafayette Street and the City's Golf Course. The Agency has agreed to pay consideration to the City for the site in an amount equal to all rent that the Agency will receive from the eventual lease of the site. The Cooperation Agreement was amended in June 2005 to expand the sources of funds from which the Agency make payments on the site to the City. The Agency agreed to make payments from any source of funds when and as available and not reasonably needed for other redevelopment purposes. As of the end of the fiscal year, the Agency has identified the lease payments on the ground lease of the Theme Park from Paramount Parks as additional source for payment of the site. The amended Agreement also provided for payment of interest by the Agency at the highest rate allowable by law on the \$101 million agreed upon valuation of the site. The following schedule summarizes the approximate future payments to the City by the RDA on the Cooperation Agreement:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$8,939,002
2008	8,939,002
2009	8,939,002
2010	8,939,002
2011	8,939,002
Thereafter	313,669,162
	<u>\$358,364,172</u>

In April 2000, the Agency also entered into a Disposition and Development Agreement with Ground Lease with The Irvine Company (Developer) for development of the site as an office/R&D complex. The site will be subdivided into several parcels to accommodate the phased development of the project. The Agency and Developer have identified certain improvements (conditions precedent) to be completed to prepare the site for development. The Agency and Developer have also identified responsibilities for certain costs of the conditions precedent. As of June 30, 2006, the Agency has appropriated \$14.9 million and expended close to \$14.4 million (for its share of these costs) for the following projects: Golf Course Fairways Relocation and Perimeter Drainage, Wetland Mitigation – Yerba Buena Parcels, Yerba Buena Owl Mitigation, Landfill Cut-off Wall, and the Yerba Buena Way Site Remediation.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY (Continued)**

Under the DDA, the Agency has leased out to the developer Parcel 2 effective February 16, 2001. Rent on Parcel 2 begins 28 months and 3 days from the effective date. The term of the lease shall be at least 75 years but no more than 80 years from the effective date of the lease. The Agency will receive specified amount of minimum rent subject to adjustment at times specified in the lease. The following schedule summarizes the approximate future lease revenues to be received by the RDA from the lease of Parcel 2:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$3,639,002
2008	3,639,002
2009	3,639,002
2010	3,639,002
2011	3,639,002
Thereafter	235,170,504
	<u>\$253,365,514</u>

It is estimated that the DDA will yield approximately \$7 million per year at full build-out.

**NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS**

**A. Santa Clara Convention and Visitors Bureau and Convention Center**

In March 1984, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2006, the City paid the Chamber \$1.37 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Conference and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2006, the Convention Center paid the Chamber \$45 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS (Continued)**

**B. American Golf Corporation**

In May 1987, SOSA entered into a management agreement with American Golf Corporation (AGC) to manage the operations of the Santa Clara Golf and Tennis Club (SCG&TC). On June 4, 2002, SOSA approved an additional extension of the management agreement to June 30, 2007. The terms of the extended management agreement are essentially the same as the original agreement. Under the extended agreement, AGC is entitled to receive an annual management fee equal to a fixed amount (currently about \$138 thousand per year) plus 3% of the gross revenues derived from the operation of SCG&TC. The fixed portion of the management fee is adjusted annually for changes in the consumer price index. In addition, AGC receives an annual administration fee of an amount not to exceed \$55 thousand. In fiscal year 2006, the City paid a total of \$284 thousand under this contract.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS**

**A. Disposition and Development Agreement (Original DDA)**

A Disposition and Development Agreement dated November 1, 1988 and First Implementation Agreement dated January 17, 1990 (collectively, the Original DDA) was entered into by SOSA and a private developer for the lease of land owned by SOSA and phased development of the Fairway Glen Development Project consisting of seven parcels (74.29 acres) of multifamily residential rental housing and two parcels (9.3 acre) commercial center

In April 1994, subsequent to the lease of the first two residential parcels and the completion of construction of Bella Vista Apartment Community (Phase R-1) on those parcels, the developer exercised the option to terminate the Original DDA as to all remaining phases of development. SOSA and the developer entered into discussions relative to a limited development of the remaining parcels. The discussions resulted in the Agreement to Amend Ground Lease (See Note 7B) and a new Disposition and Development Agreement (New DDA) for the development of Parcels R-3 and R-4 (See Note 7C).

**B. Agreement to Amend Ground Lease**

The Agreement to Amend Ground Lease (Agreement to Amend) was entered into by SOSA and the developer in February 1996.

Concurrent with the Agreement to Amend, SOSA and the Agency entered into a Cooperation Agreement (Cooperation). Under the Cooperation, a Master Lease was executed for Parcel R-1. The execution of a Master Lease resulted in the conversion of the Ground Lease into a Sublease and the assignment of SOSA's interest as lessor under the Ground Lease to the Agency at the time of the recordation of the Amended Sublease.

As provided in the Agreement to Amend, the Agency as Sublessor and the developer as Sublessee have entered into an Amended Sublease (Sublease) for Parcel R-1. The Sublease transforms the existing unsubordinated Ground Lease from SOSA to developer into a rent-subordinated sublease from the Agency to developer. The terms of the Sublease are intended to permit the developer to obtain financing secured by its subleasehold interest in the Sublease and the Agency's interest in the Master Lease.

Under the Sublease, the Agency is entitled to a minimum rent of \$1,200 per net acre monthly, or \$27,054 per month. The minimum rent is subject to adjustment at amounts calculated at times specified in the Amended Sublease. The minimum rent was adjusted to \$41,805 per month starting July 2003 following the refinancing of the sublessee's interest in June 2003. The Agency is also entitled to additional rent calculated at a specified percentage of net operating income, operating cash flow, and as applicable, refinancing or sales proceeds. In fiscal year 2006, the Agency received \$502 thousand, \$19 thousand and \$86 thousand in minimum, percentage and participation rents respectively. All amounts received by the Agency under the agreement are paid to SOSA. The Sublease provides for a maximum term of 75 years from August 15, 1996 that includes two ten-year option terms.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (Continued)**

**C. New Disposition and Development Agreement (New DDA)**

In January 1996, the Agency and the developer entered into a new Disposition and Development Agreement (New DDA). The New DDA provides for the execution and recordation of Master Leases for Parcels R-3 and R-4 between SOSA and the Agency and for the subleasing of Parcels R-3 and R-4 from the Agency by the developer. Under the New DDA, the Agency has ground subleased Parcels R-3 and R-4 and the Developer has constructed thereon 252 and 276 housing units respectively.

Under the terms of subleases, the Agency is entitled to a minimum rent payment of \$1,200 per net acre per month or \$11,945 per month for Nantucket (Parcel R-3) and \$12,970 per month for Carlyle (Parcel R-4). In addition, the Agency receives percentage and participation rents calculated in accordance with formula specified in the subleases. Commencing with the rent payment of September 2005, the minimum rent for Parcel R-3 was adjusted to \$17,462 per month as a result of the refinancing of the sublessee's interest on the Nantucket Community in August 2005. Likewise, effective with the rent payment of May 2006, the minimum rent for Carlyle was adjusted to \$21,355 as a result of the refinancing of the sublessee's interest on the Carlyle Community in April 2006. In fiscal year 2006, the Agency received from Parcel R-3 sublease \$199 thousand and \$67 thousand in minimum and percentage rents respectively and from Parcel R-4 sublease, \$172 thousand and \$167 thousand in minimum and percentage rents respectively. All amounts received by the Agency under the foregoing agreements are paid to SOSA.

**D. SOSA Future Lease Revenues**

The following schedule summarizes the future minimum lease payments to be received by SOSA from the Fairway Glen development project (Note 7B & 7C) and from a separate lease agreement with a restaurant operator for a restaurant facility (David's) at the SCG&TC:

Fiscal Year Ending June 30	INTERLAND			David's Restaurant	Total
	R-1 Bella Vista	R-3 Nantucket	R-4 Carlyle		
2007	\$ 501,660	\$ 209,544	\$ 256,260	\$ 40,000	\$ 1,007,464
2008	501,660	209,544	256,260		967,464
2009	501,660	209,544	256,260		967,464
2010	501,660	209,544	256,260		967,464
2011	501,660	209,544	256,260		967,464
Thereafter	20,150,010	8,486,532	10,955,115	-	39,591,657
Total	<u>\$ 22,658,310</u>	<u>\$ 9,534,252</u>	<u>\$ 12,236,415</u>	<u>\$ 40,000</u>	<u>\$ 44,468,977</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS**

Cash and Cash Equivalents

The City pools cash from all sources and all funds except restricted cash and investments with fiscal agent. Allocable portions of the pooled portfolio for each fund type are reported under the captions "Pooled cash and investments" and "Cash designated for construction." Interest income earned on pooled cash and investments is allocated to various funds based on average cash balances of each fund unless there are specific legal or contractual requirements to do otherwise.

Total cash and investments of the City was \$823.7 million as of June 30, 2006. This amount includes the City's cash and cash equivalents of \$757.2 million, and cash and investments with fiscal agents of \$66.5 million.

Of the City's total cash and investments, the following shows the allocation as presented on the accompanying statement of net assets:

Pool cash and investment	\$ 740,751,891
Cash with fiscal agent	<u>66,320,764</u>
Total City cash and investments	\$ 807,072,655
Cash and investments in Fiduciary Funds (separate statement)	<u>16,640,241</u>
Total cash and investments	<u><u>\$ 823,712,896</u></u>

The City's cash and investments balances in governmental, enterprise, internal service funds, and agency funds were as follows:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Agency Funds	Total
Pooled cash and investments	\$ 184,276,226	\$ 443,939,323	\$ 14,165,812	\$ 16,429,659	\$ 658,811,020
Cash designated for construction	90,770,239	2,449,568			93,219,807
Investments with fiscal agent - current	18,651,283	13,051,383	19,948,861		51,651,527
Investments with fiscal agent - noncurrent	209,414	14,459,823		210,582	14,879,819
Trust	2,944,126				2,944,126
Deposits		2,206,597			2,206,597
Total cash and investments					<u><u>\$ 823,712,896</u></u>



**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment strategy is to invest cash not required for current obligations in U. S. government securities, federal government agency securities, highly rated money market instruments and other investments in accordance with the City's investment policy for a maximum term of five years for the General Fund portfolio. The City Council has authorized the purchase of securities with maturities greater than five years, specifically for the Electric Cost Reduction Account. This strategy allows the City to minimize its exposure to credit, market, and liquidity risk while maintaining a reasonable return on its portfolio.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2006 for each investment type.

The City's investment policy, in compliance with the City of Santa Clara Charter, Article IX, Section 904 (d) and (h), and the California Government Code authorizes the City to invest in securities that are consistent with the City's cash management strategy and long-term goals and objectives. The City is authorized to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities (A)	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1 / P1	25%	10%
California Local Agency Investment Fund	N/A	N/A	None	\$40M Per A/C
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three ratings categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(A) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Investments Authorized by Debt Agreements

The City invests bond proceeds designated for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceeds investments are reported monthly to the City Council.

The City also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance. For disclosure purposes, debt proceeds that comply with this provision are listed as follows:

<u>Description</u>	<u>Invested Amount</u>	<u>Nature of Funds</u>	<u>Invested With</u>	<u>Maturity</u>	<u>Credit Rating</u>
RDA Tax Allocation Bonds Series 2003	\$ 32,495,178	Bond Proceeds	Trinity Plus Funding Co., LLC	12/1/07	AAA
RDA Tax Allocation Bonds Series 1999	\$ 54,991,038	Bond Proceeds	AIG Matched Funding Corp.	6/15/07	AA

RDA bond proceeds designated for construction projects are invested by the City. Electric Reserve Fund proceeds are held by the trustee as fiscal agent investments. All funds have been invested as permitted under the Code. These investments are usually scheduled to mature when cash is needed to fulfill the requirements of the underlying bond and trust agreements. All investment transactions received prior approval from the City's Director of Finance before they are executed.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To reduce interest rate risk, the City diversifies the portfolio into a wide range of investments with different maturities, maintains a reasonable average maturity of less than three years, and purchases callable bonds with only a one-time call feature. This approach significantly mitigates adverse market volatility and maximizes returns.

The average maturity of the City's pooled investment portfolio at June 30, 2006 was approximately 1.76 years and the City has the ability to and generally intends to hold all investments to maturity. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or call date, whichever is earlier.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

		Maturity					
	Credit	Under 180	181 - 365	1 - 3	3 - 5	Over 5	Carrying
Type of Investment	Rating	Days	Days	Years	Years	Years	Value
Pooled investments:							
Cash	N/A	822,692					822,692
U.S. Treasury notes and bonds	AAA	1,981,796					1,981,796
Federal Farm Credit Banks	AAA			2,916,563	2,947,500		5,864,063
Federal Home Loan Banks	AAA	20,700,000	14,862,188	29,487,575			65,049,763
Federal National Mortgage Association	AAA	50,917,059	47,438,438	174,454,375			272,809,872
Federal Home Loan Mortgage Corporation	AAA	79,821,908	34,927,804	114,477,414			229,227,126
Corporate notes	AAA			8,338,057	2,071,112		10,409,169
Corporate notes	AA	9,991,667					9,991,667
Mutual fund	AAA	53,627,085					53,627,085
Mutual fund	Not Rated	2,457,285					2,457,285
State Investment Pool	Not Rated	6,149,946					6,149,946
Total pooled investments in the City Treasury		226,469,438	97,228,429	329,673,984	5,018,612		658,390,462
Debt & Other investments:							
Cash	N/A	2,207,752					2,207,752
U.S. Treasury notes and bonds	AAA			19,921,593			19,921,593
Federal Farm Credit Banks	AAA		24,664			45,935	70,599
Federal Home Loan Banks	AAA	5,011,567		223,586		270,700	5,505,853
Federal National Mortgage Association	AAA			99,047		95,665	194,712
Federal Home Loan Mortgage Corporation	AAA	261,695		5,070,262			5,331,957
Corporate notes	AAA				86,783		86,783
Corporate notes	AA	50,104	49,812		41,750	128,397	270,063
Corporate notes	A	100,079	149,274				249,353
Corporate notes	BAA						
Corporate stock	A	485,421					485,421
Corporate stock	B	391,702					391,702
Corporate stock	C						
Corporate stock	Not Rated	294,631					294,631
Investment Agreements	AAA			32,495,178			32,495,178
Investment Agreements	AA			54,991,038			54,991,038
Investment Agreements	AA				3,549,796		3,549,796
Investment Agreements	A				9,265,000		9,265,000
Mutual fund	AAA	27,581,861					27,581,861
Mutual fund	N/R	305,735					305,735
State Investment Pool	Not Rated	2,123,796					2,123,796
Total non-city pooled investments		38,814,343	223,750	112,800,704	12,943,329	540,697	165,322,434
Total investments		\$ 265,283,392	97,452,179	442,474,687	17,961,941	540,697	\$ 823,712,896

Note: Maturity is based on call dates for callable notes.

Corporate stocks were purchased by external manager for the Bentzien Trust with the approval of the City Council.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

The City accounts for investments in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value based on quoted market information obtained from recognized sources. The City has reported its investments at fair value with the exception of its share of external investment pools and mutual funds, the carrying value of which approximates fair value. In determining the change in fair value of its investments, the City used an aggregate method of calculation. The entire portfolio was valued at the beginning and end of the year and the change in fair value, net of purchases and maturities during the year, was reported as a \$10.2 million decrease in investment earnings. The aggregate method resulted in a net decrease of 2.2% or \$16.6 million in the balance of the City's pooled cash investments as of June 30, 2006. The reason for the drop in fair value was primarily due to the continuous action of the Federal Reserve Board to increase interest rates. Between June 2005 and June 2006, the Federal Reserve Bank's target rate rose 54%, from 3.25% to 5.00%.

Concentration of Credit Risk

Investments in the securities of any individual issuers that represent 5% or more of total City-wide investments are shown in the table below:

<u>Fund</u>	<u>Issuer</u>	<u>Bond-rating</u>	<u>Fair Value</u>	<u>Expiration</u>	<u>% of Holding</u>
RDA	AIG Matched funding Corporation	AA	\$ 54,991,038	6/15/07	6.7%
General	Federal Home Loan Banks	AAA	\$ 70,920,613	N/A	8.6%
General	Federal National Mortgage Association	AAA	\$ 272,809,872	N/A	33.1%
General	Federal Home Loan Mortgage Corporation	AAA	\$ 234,329,867	N/A	28.5%
General	Fidelity Investment	AAA	\$ 53,627,085	N/A	6.5%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

All City's deposits and investments are held in the manners described above.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations to a greater degree than already noted in the Interest Rate Risk Section above.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
<b>General Fund</b>	Redevelopment Agency	\$ 7,431,522	A
	Sports and Open Space Authority	2,591,927	B
	Electric	27,500	O
	Non-Major Governmental	1,015,073	C
<b>Redevelopment Agency</b>	Non-Major Governmental	-	
<b>Non-Major Governmental</b>	General Fund	13,324,014	D
	Redevelopment Agency	1,900	E
			M
	Electric Utility	30,000	M
	Electric Utility	1,721,795	F
	Water Utility	190,503	F
	Sewer Utility	96,387	F
	Solid Waste	111,975	F
	Technical Equipment Services	70,000	G
	Cemetery	4,700	F
<b>Internal Service Funds</b>	General Fund	2,429,184	H
	Electric Utility	411,836	H
	Water Utility	118,386	H
	Sewer	42,102	H
	Water Recycling	3,730	H
	Solid Waste	11,484	H
	Cemetery	15,781	H
	Technical Equipment Services	6,504	H
	Automotive Services	40,993	H
<b>Water Utility</b>	Water Recycling Utility	500,000	I
<b>Solid Waste</b>	General Fund	396,252	J
<b>Cemetery</b>	Non-Major Governmental	39,223	N
<b>Sports and Open Space Authority</b>	Santa Clara Golf and Tennis Club	1,304,555	K
<b>Santa Clara Convention Center</b>	General Fund	479,317	L
			L
<b>Interfund Transfers</b>		<u>\$ 32,416,643</u>	

**The reasons for material transfers are set forth below:**

- (A) Transfer per the cooperation agreement between general fund and RDA.
- (B) Transfer per the cooperation agreement between general fund, SOSA and Santa Clara Convention Center.
- (C) Transfer to general fund from capital project funds to return unspent project funds.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

- (D) Transfer to fund various projects in the capital funds and pay debt service.
- (E) Transfer to fund housing projects included in the HUD Special Revenue Fund.
- (F) Transfer to fund their respective share of financial, human resources software, utility billing and other projects.
- (G) Transfer to fund communication acquisitions.
- (H) Transfer to fund workers' compensation claims, computer dispatch upgrades and technology improvements.
- (I) Transfer to fund Water Recycling Activities.
- (J) Transfer to subsidize operations.
- (K) Transfer lease payments from American Golf, Interland, and others in accordance with the lease agreements.
- (L) Transfer to pay back monthly advances from City plus budget surplus/deficit.
- (M) Transfer to fund street tree planting and community activities
- (N) Transfer of interest earned on Endowment Trust Funds
- (O) Transfer to General Fund for Donation to Assist Katrina Victims.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**B. Current Interfund Balances**

Current Interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of Interfund balances as of June 30, 2006.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-Major Governmental	\$ 92,800
	Santa Clara Convention Center	1,099,458
Non-Major Governmental	Internal Service Fund	<u>9,972</u>
	Receivable by Governmental Funds	<u>\$ 1,202,230</u>
Electric Utility	Internal Service Fund	\$ 1,585,124
Water Utility	Internal Service Fund	85,495
Sewer	Internal Service Fund	545,413
Solid Waste	Internal Service Fund	868,552
Cemetery	Internal Service Fund	<u>135,423</u>
	Receivable by Enterprise Funds	<u>\$ 3,220,007</u>
Internal Service Fund	Internal Service Fund	<u>\$ 176,484</u>
	Receivable by Internal Service Funds	<u>\$ 176,484</u>

**Note:** The City uses due to/due from as a balancing mechanism in funds with positive cash balances.

**C. Long-Term Interfund Advances**

At June 30, 2006 the funds below had made advances which were not expected to be repaid within the next year.

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Redevelopment Agency	General Fund	\$ 9,431,325
Cemetery	General Fund	1,760,720
Santa Clara Golf & Tennis Club	General Fund	<u>3,774,134</u>
Total Advances		<u>\$ 14,966,179</u>



**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**Redevelopment Agency Fund** has a \$9,431,325 advance that bears interest which is based on the City's portfolio rate, and will be repaid to General Fund in annual installments after fulfilling the Agency's debt service, capital project, and 20% housing set-aside transfer obligations.

**Cemetery Fund** has a \$1,760,720 advance that bears no interest and will be repaid when funds become available. The advance is a long-term subsidy of operations pending mausoleum project funding in future years, which is expected to generate additional revenues.

**Santa Clara Golf and Tennis Club Fund** has a \$3,774,134 advance which does not bear interest, and will be repaid in annual installments after completion of capital improvements from income generated by these capital improvements.

**D. Internal Balances**

Internal balances represent the net Interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 10 - CAPITAL ASSETS**

**A. Capital Assets Summary**

**Capital Assets at June 30 comprise:**

	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
<b>Governmental Activities</b>					
Non Depreciable Assets:					
Land	\$ 99,167,234	\$ 6,094,215	\$ (298,809)	\$	\$ 104,962,640
Construction In Progress	14,581,336	23,040,299		(10,953,386)	26,668,249
Total Non Depreciable Assets	113,748,570	29,134,514	(298,809)	(10,953,386)	131,630,889
Capital Assets being depreciated:					
Land Improvements	15,523,917			1,245,088	16,769,005
Buildings & Improvements	126,346,564			3,369,951	129,716,515
Machinery & Equipment	61,713,570	913,366	(2,160,502)	2,279,980	62,746,414
Infrastructure	384,872,035	1,758,002		4,058,367	390,688,404
Total Capital Assets being depreciated	588,456,086	2,671,368	(2,160,502)	10,953,386	599,920,338
Less accumulated depreciation for:					
Land Improvements	(2,905,958)	(752,880)			(3,658,838)
Buildings & Improvements	(15,525,767)	(2,666,915)			(18,192,682)
Machinery & Equipment	(30,709,447)	(5,986,991)	1,999,566		(34,696,872)
Infrastructure	120,048,312)	(10,511,933)			(130,560,245)
Total accumulated depreciation	(169,189,484)	(19,918,719)	1,999,566	-	(187,108,637)
Net Depreciable Assets	419,266,602	(17,247,351)	(160,936)	10,953,386	412,811,701
Governmental Activity Net Capital Assets	\$ 533,015,172	\$11,887,163	\$ (459,745)	\$ -	\$ 544,442,590
<b>Business-Type Activities</b>					
Non Depreciable Assets:					
Land & Improvements	\$ 16,827,610	\$	\$	\$ 10,688	\$ 16,838,298
Construction In Progress	3,582,806	15,134,099		(12,394,947)	6,321,958
Total Non Depreciable Assets	20,410,416	15,134,099	0	(12,384,259)	23,160,256
Capital Assets being depreciated:					
Buildings & Improvements	807,958,982	212,048		11,527,182	819,698,212
Machinery & Equipment	14,852,756	302,071	(1,226,971)	857,077	14,784,933
Total Capital Assets being depreciated	822,811,738	514,119	(1,226,971)	12,384,259	834,483,145
Less accumulated depreciation for:					
Buildings & Improvements	(280,170,770)	(18,985,549)			(299,156,319)
Machinery & Equipment	(11,716,262)	(868,566)	1,074,599		(11,510,229)
Total accumulated depreciation	(291,887,032)	(19,854,115)	1,074,599	-	(310,666,548)
Net Depreciable Assets	530,924,706	(19,339,996)	(152,372)	12,384,259	523,816,597
Enterprise Activity Net Capital Assets	\$ 551,335,122	\$(4,205,897)	\$ (152,372)	\$ -	\$ 546,976,853

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 10 – CAPITAL ASSETS (Continued)**

Construction in progress for governmental activities as of June 30, 2006, consisted of the following projects:

<u>Major Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Transportation Improvements	\$ 9,350,602	\$ 3,296,207	\$ 6,054,395
Technology Application & Implementation Projects	1,519,975	1,441,849	78,126
Redevelopment Agency Projects	73,689,240	5,503,041	68,186,199
City Building Improvements	13,720,660	5,602,941	8,117,719
Parks and Recreation Facilities Improvement	<u>13,931,336</u>	<u>10,824,211</u>	<u>3,107,125</u>
	<u>\$ 112,211,813</u>	<u>\$ 26,668,249</u>	<u>\$ 85,543,564</u>

Construction in progress for business-type activities as of June 30, 2006, consisted of the following

<u>Major Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Electric Projects	\$ 7,239,170	\$ 5,255,784	\$ 1,983,386
Water/Sewer/Solid Waste Projects	4,496,879	933,480	3,563,399
Golf & Tennis Projects	<u>139,114</u>	<u>132,694</u>	<u>6,420</u>
	<u>\$ 11,875,163</u>	<u>\$ 6,321,958</u>	<u>\$ 5,553,205</u>

Details of these projects are available from the City on request.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 10 – CAPITAL ASSET (Continued)**

**B. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:

General Administration	\$	2,887,664
City Clerk		1,395
City Attorney		751
Human Resources		7,818
Finance		35,846
Public Works		11,213,105
Parks and Recreation		990,854
Public Safety		
Police*		1,509,967
Fire		510,330
Planning & Inspection		197,357
Library		<u>1,154,890</u>
Subtotal		18,509,977
Capital assets held by the City's Internal Service		
Funds are charged to the various functions		
based on their usage of the assets		<u>1,408,742</u>
 Total Governmental Activities	 \$	 <u><u>19,918,719</u></u>

Business-type Activities

Utility Funds:		
Electric Utility	\$	15,917,644
Water Utility		975,418
Sewer Utility		469,406
Solid Waste		18,566
Cemetery		37,068
Santa Clara Golf and Tennis Club		815,020
Santa Clara Convention Center		<u>1,620,993</u>
 Total Business-type Activities	 \$	 <u><u>19,854,115</u></u>

\* As of the beginning of Fiscal Year 2005-2006, the Communication Department was incorporated into the Police Department

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 11 - LONG-TERM OBLIGATIONS**

As of June 30, 2006, outstanding long-term obligations consisted of the following (in thousands):

<u>Type of Indebtedness</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rates</u>
Governmental Activity Debt:			
General Long Term Debt:			
Special Assessment Bonds With City Commitment	12/1/1998	9/2/2011	4.10-5.20
1997 Certificates of Participation	7/1/1997	8/1/2022	4.5-5.375
2002A Certificates of Participation	11/14/2002	2/1/2032	3.00-5.00
2002B Certificates of Participation	11/14/2002	2/1/2014	3.00-4.50
Redevelopment Agency Obligations:			
Senior Secured Refunding Notes	6/1/1989	12/31/2005	11.24
Bayshore North Project 1992 TA and Refunding Bonds	10/22/1992	7/1/2014	7.00
Bayshore North Project-1999 TA Bonds Series A	8/1/1999	6/1/2023	5.25-5.50
Bayshore North Project-1999 TA Bonds Series B	8/1/1999	6/1/2017	5.25-5.50
Bayshore North Project-2002 TA Refunding Bonds	6/6/2002	6/1/2014	4.00-5.50
Bayshore North Project-2003 TA Bonds	5/14/2003	6/1/2023	5.00
Internal Service Long Term Debt:			
Insurance Funding Bonds-Series 1987	4/13/1987	4/1/2012	3.00
Business Type Activity Debt:			
Enterprise Long Term Debt:			
Electric Utility:			
1985 Series A Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series B Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series C Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1991 Series B Revenue Refunding Bonds	1/28/1992	7/1/2010	5.20-6.35
1998 Series A Revenue Bonds	3/1/1998	7/1/2027	4.5-5.25
2003 Series A Revenue Bonds	10/9/2003	7/1/2028	2.50-5.25
2003 Series B Revenue Bonds	10/9/2003	7/1/2034	Adjustable
Less Unamortized Discount			
Total of Electric Utility Revenue Bonds			
Water Recycling Utility:			
State Water Resource Control Board Loan	1/9/1989	1/22/2008	4.0128
Subtotal Business-type Activity Debt			
Total Long-Term Obligations			

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 11 - LONG-TERM OBLIGATIONS**

As of June 30, 2006, outstanding long-term obligations consist of:

<u>Type of Indebtedness</u>	<u>Authorized and Issued</u>	<u>Outstanding as of June 30, 2005</u>
Governmental Activity Debt:		
General Long Term Debt:		
Special Assessment Bonds With City Commitment	\$ 10,325,000	\$ 6,700,000
1997 Certificates of Participation	16,050,000	13,935,000
2002A Certificates of Participation	25,025,000	24,350,000
2002B Certificates of Participation	33,505,000	28,440,000
Redevelopment Agency Obligations:		
Senior Secured Refunding Notes	42,000,000	1,712,729
Bayshore North Project 1992 TA and Refunding Bonds	74,240,000	26,630,000
Bayshore North Project-1999 TA Bonds Series A	31,550,000	31,550,000
Bayshore North Project-1999 TA Bonds Series B	16,905,000	16,905,000
Bayshore North Project-2002 TA Refunding Bonds	33,910,000	21,180,000
Bayshore North Project-2003 TA Bonds	43,960,000	43,960,000
	<u>327,470,000</u>	<u>215,362,729</u>
Internal Service Long Term Debt:		
Insurance Funding Bonds-Series 1987	<u>20,000,000</u>	<u>20,000,000</u>
	<u>347,470,000</u>	<u>235,362,729</u>
Business Type Activity Debt:		
Enterprise Long Term Debt:		
Electric Utility:		
1985 Series A Revenue Bonds	25,000,000	12,700,000
1985 Series B Revenue Bonds	25,000,000	12,700,000
1985 Series C Revenue Bonds	28,300,000	14,300,000
1991 Series B Revenue Refunding Bonds	23,194,000	5,871,601
1998 Series A Revenue Bonds	89,275,000	84,975,000
2003 Series A Revenue Bonds	100,000,000	100,000,000
2003 Series B Revenue Bonds	50,000,000	50,000,000
Less Unamortized Discount	-	(5,423,656)
Total of Electric Utility Revenue Bonds	<u>340,769,000</u>	<u>275,122,944</u>
Water Recycling Utility:		
State Water Resource Control Board Loan	<u>975,000</u>	<u>237,391</u>
Subtotal Business-type Activity Debt	<u>341,744,000</u>	<u>275,360,335</u>
Total Long-Term Obligations	<u>\$ 689,214,000</u>	<u>\$ 510,723,064</u>

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 11 - LONG-TERM OBLIGATIONS**

As of June 30, 2006, outstanding long-term obligations consist of:

<u>Type of Indebtedness</u>	<u>Debt Retired</u>	<u>Additions and Amortization of Discounts</u>
Governmental Activity Debt:		
General Long Term Debt:		
Special Assessment Bonds With City Commitment	\$ 825,000	\$ -
1997 Certificates of Participation	485,000	-
2002A Certificates of Participation	500,000	-
2002B Certificates of Participation	2,395,000	-
Redevelopment Agency Obligations:		
Senior Secured Refunding Notes	1,712,729	-
Bayshore North Project 1992 TA and Refunding Bonds	-	-
Bayshore North Project-1999 TA Bonds Series A	-	-
Bayshore North Project-1999 TA Bonds Series B	-	-
Bayshore North Project-2002 TA Refunding Bonds	-	-
Bayshore North Project-2003 TA Bonds	-	-
	<u>5,917,729</u>	<u>-</u>
Internal Service Long Term Debt:		
Insurance Funding Bonds-Series 1987	-	-
	<u>5,917,729</u>	<u>-</u>
Business Type Activity Debt:		
Enterprise Long Term Debt:		
Electric Utility:		
1985 Series A Revenue Bonds	\$ 1,900,000	-
1985 Series B Revenue Bonds	1,900,000	-
1985 Series C Revenue Bonds	2,100,000	-
1991 Series B Revenue Refunding Bonds	2,090,000	242,957
1998 Series A Revenue Bonds	515,000	-
2003 Series A Revenue Bonds	2,575,000	-
2003 Series B Revenue Bonds	-	-
Less Unamortized Discount	-	300,152
Total of Electric Utility Revenue Bonds	<u>11,080,000</u>	<u>543,109</u>
Water Recycling Utility:		
State Water Resource Control Board Loan	<u>64,723</u>	<u>-</u>
Subtotal Business-type Activity Debt	<u>11,144,723</u>	<u>543,109</u>
Total Long-Term Obligations	<u><u>17,062,452</u></u>	<u><u>543,109</u></u>

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 11 - LONG-TERM OBLIGATIONS**

As of June 30, 2006, outstanding long-term obligations consist of:

<u>Type of Indebtedness</u>	<u>Outstanding as of June 30, 2006</u>	<u>Current Portion</u>
Governmental Activity Debt:		
General Long Term Debt:		
Special Assessment Bonds With City Commitment	\$ 5,875,000	\$ 860,000
1997 Certificates of Participation	13,450,000	510,000
2002A Certificates of Participation	23,850,000	515,000
2002B Certificates of Participation	26,045,000	2,470,000
Redevelopment Agency Obligations:		
Senior Secured Refunding Notes	-	-
Bayshore North Project 1992 TA and Refunding Bonds	26,630,000	4,630,000
Bayshore North Project-1999 TA Bonds Series A	31,550,000	-
Bayshore North Project-1999 TA Bonds Series B	16,905,000	-
Bayshore North Project-2002 TA Refunding Bonds	21,180,000	-
Bayshore North Project-2003 TA Bonds	43,960,000	-
	<u>209,445,000</u>	<u>8,985,000</u>
Internal Service Long Term Debt:		
Insurance Funding Bonds-Series 1987	<u>20,000,000</u>	<u>-</u>
	<u>229,445,000</u>	<u>8,985,000</u>
Business Type Activity Debt:		
Enterprise Long Term Debt:		
Electric Utility:		
1985 Series A Revenue Bonds	10,800,000	2,100,000
1985 Series B Revenue Bonds	10,800,000	2,100,000
1985 Series C Revenue Bonds	12,200,000	2,300,000
1991 Series B Revenue Refunding Bonds	4,024,558	2,080,000
1998 Series A Revenue Bonds	84,460,000	600,000
2003 Series A Revenue Bonds	97,425,000	2,640,000
2003 Series B Revenue Bonds	50,000,000	-
Less Unamortized Discount	<u>(5,123,504)</u>	<u>-</u>
Total of Electric Utility Revenue Bonds	<u>264,586,054</u>	<u>11,820,000</u>
Water Recycling Utility:		
State Water Resource Control Board Loan	<u>172,668</u>	<u>67,319</u>
Subtotal Business-type Activity Debt	<u>264,758,722</u>	<u>11,887,319</u>
Total Long-Term Obligations	<u>494,203,722</u>	<u>20,872,319</u>



**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**A. City Long-term Obligations**

Special Assessment Bonds with City Commitment

On December 1, 1998, the City completed the sale of the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 186 Series 1998 Bonds (SCCC 1998 Bonds) having a par value of \$10.33 million. The SCCC 1998 Bonds were issued to refund the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 183 Series 1985 Bonds totaling \$10.34 million. The Reassessment Bonds consist of \$3.63 million of serial bonds maturing from 2000 to 2004; \$4.55 million of term bonds maturing from 2005 to 2009; and \$2.16 million of term bonds maturing from 2010 to 2011. The District consists of two parcels, both owned by the Redevelopment Agency of the City of Santa Clara and subject to ground leases. Debt service on the SCCC 1998 Bonds is primarily payable from annual installments of unpaid reassessments. Special assessment bonds are collateralized by liens against the properties benefited and debt service payments on each issue are made from assessments included on the County tax roll. The City is entitled to recover any delinquent payments either from the property owner or from the proceeds of a foreclosure sale.

With the exception of the SCCC 1998 Bonds, the City has no duty to transfer into the redemption fund the amount of the delinquency out of available funds of the City, other than from the reserve fund. Therefore, special assessment bonds other than the SCCC 1998 Bonds are reported under Agency Fund in the financial statements because they are not considered as the City's long-term obligations.

1997 Police Administration Building Project Certificates of Participation

On May 19, 1997, the City Council established the Santa Clara Public Facilities Financing Corporation (PFFC). The PFFC was the issuing agency for the 1997 Police Administration Building Project Certificates of Participation (1997 COP). In July 1997, the PFFC, issued a \$16.05 million 25-year COP. The issue consists of \$11.73 million of serial bonds maturing from 2000 to 2018 and \$4.32 million of term bonds maturing in 2022. Debt service on the 1997 COP is secured by lease payments to be made by the City to the PFFC for the use of the Police Administration Building site. The PFFC assigns lease payments to the certificate-holders.

2002 Certificates of Participation, Series A Bonds

On November 14, 2002, the City's PFFC issued \$25.03 million of the 2002 Certificates of Participation, Series A Bonds (2002A COP). Proceeds of the 2002A COP were used to construct the City's Central Park Library. The 2002A COP matures serially in years 2004 through 2032, and bear interest at 3.0% to 5.0%. Debt service on the 2002A COP is secured by lease payments to be made by the City to the PFFC for the use of the library. The PFFC assigns the lease payments to the certificate owners.

2002 Certificates of Participation, Series B Bonds

On November 14, 2002, the City's Sports and Open Space Authority (SOSA) issued \$33.51 million of the 2002 Certificates of Participation, Series B Bonds (2002B COP). Proceeds of the 2002B COP were used to redeem outstanding balances of the LGFA Bonds and the 1993 COP. The 2002B COP matures serially in years 2003 through 2014, and bear interest at 3.0% to 4.5%. Debt service on the 2002B COP is secured by lease payments between the City and SOSA for the use of the golf course property and related facilities. SOSA assigns the lease payments to the certificate owners.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Compliance

Various debt agreements governing the City's bonds contain a number of covenants, including continuing disclosure requirements. The City is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event or default as defined in the bond indentures has occurred or is occurring.

**B. Redevelopment Agency Long-term Obligations**

Senior Secured Refunding Notes

The 1989 Senior Secured Refunding Notes (RDA 1989 Notes) was fully redeemed in December 2005. Proceeds from the 1989 Senior Secured Refunding Notes (RDA 1989 Notes), along with proceeds from the sale of the Theme Park and other monies, were used to retire the RDA 1985 Series A Adjustable Convertible Certificates of Participation totaling \$87.40 million. The Ground Lease the Agency entered into with Paramount (see Note 4A) guarantees the repayment of the RDA 1989 Notes. The Ground Lease has a 20-year term with an option to extend for three additional ten-year terms.

Bayshore North Project 1992 Tax Allocation Refunding Bonds

On October 22, 1992, the Agency issued \$74.24 million of the Bayshore North Project 1992 Tax Allocation Refunding Bonds 1992 Bonds (RDA 1992 Bonds). Proceeds of the RDA 1992 Bonds along with other available funds were deposited into two escrow funds. These escrow funds were used to advance refund a portion of the RDA 1987 Bonds and the RDA 1988A Bonds, and to reimburse the City for lease payments made by the City with respect to the RDA 1986 Refunding Certificates of Participation (Santa Clara Convention Center). The advance refunded portion of the RDA 1988 Bonds was retired on June 1, 1998. On June 6, 2002 the City exercised its option to redeem \$34.29 million of the RDA 1992 Bonds using proceeds of the Bayshore North Project 2002 Tax Allocation Refunding Bonds (RDA 2002 Bonds). The redemption price was \$102. The remaining balance, \$26.63 million, of the RDA 1992 Bonds will mature on July 1, 2010. Debt service on the RDA 1992 Bonds is secured by tax increment revenue of the Agency.

Bayshore North Project 1999 Tax Allocation Bonds, Series A

On August 3, 1999, the Agency issued \$31.55 million of Bayshore North Project 1999 Tax Allocations Bonds, Series A (RDA 1999A Bonds) to partially fund the construction of a multi-story parking garage and a soccer park. The garage is located in the vicinity of the Great America Theme Park and the Santa Clara Convention Center Complex and the soccer park is located near Tasman Drive. The RDA 1999A Bonds mature serially in years 2017 through 2019, with final maturity in year 2023. The bonds are subject to mandatory sinking fund redemption between 2020 and 2023 and optional redemption is available beginning June 1, 2009. The RDA 1999A Bonds bear interest rates between 5.25% and 5.50%. The bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Bayshore North Project 1999 Tax Allocation Bonds, Series B

On August 18, 1999, the Agency issued \$16.91 million of Bayshore North Project 1999 Tax Allocation Bonds, Series B, (RDA 1999B Bonds) to partially fund the construction of the multi-story parking garage that was also funded by the RDA 1999A Bonds. The RDA 1999B Bonds mature serially in years 2011 through 2017.

Optional redemption by the City is available beginning June 1, 2009. The RDA 1999B Bonds bear interest rates between 5.25% and 5.50%. The Bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 2002 Tax Allocation Bonds

On June 6, 2002, the Agency issued \$33.91 million of Bayshore North Project 2002 Tax Allocation Bonds (2002 Bonds), with an effective interest rate ranging from 4.0% to 5.5% for a term of 12 years. The proceeds of the 2002 Bonds were used to retire a portion of 1992 Bonds. Debt service for the bonds is funded from property taxes levied against the property owners.

Bayshore North Project 2003 Tax Allocation Bonds

On May 14, 2003, the Agency issued \$43.96 million of Bayshore North Project 2003 Tax Allocation Bonds (RDA2003 Bonds) to fund various Agency projects. The RDA2003 Bonds mature serially in years 2015 through 2023, and bear interest at 5.0%. The Bonds are insured by the MBIA Insurance Corporation. Debt service of the RDA2003 Bonds is funded by the Agency's tax increment revenues.

Compliance

Various debt agreements governing the Agency's bonds contain a number of covenants, including continuing disclosure requirements. The Agency is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

**C. Internal Service Fund Obligations**

The Insurance Funding Bonds, Series 1987 (Insurance Bonds) are special obligations of the City payable from the proceeds of the Insurance Bonds. The proceeds were placed in an insurance fund and invested solely in federal securities sufficient to pay interest and principal. The purpose of the Insurance Bonds is to pay monetary damages of \$100,000 or more when a court of competent jurisdiction enters judgment against the City. In the event the City withdraws all or a portion of the amount on deposit in the insurance fund to pay a judgment, a principal amount of Insurance Bonds equal to such withdrawal will be converted to general obligation bonds. As of June 30, 2004, the City has incurred no judgments that required a withdrawal from the insurance fund.

The Insurance Bonds are subject to mandatory purchase and remarketing on April 1 every three years. On April 1, 2005, the Insurance Bonds were remarketed and the interest rate was reset to 3.00%. The next scheduled date to remarket the bonds will be April 1, 2008. Since the Insurance Bonds are collateralized by the Liability Self-Insurance Fund, they are not included in the table of future debt service requirements.

The trust indenture governing the issuance of the Insurance Bonds contains certain covenants, including the obligation on the part of the City to rebate excess investment earnings (arbitrage), if any, to the Internal Revenue

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Service. The City is in compliance with the debt covenants, and no event of default as defined in the indenture has occurred or is occurring.

**D. Enterprise Funds**

**Electric Utility**

1985 Floating Rate Electric Revenue Bonds, Series A, B and C

The City's 1985 Floating Rate Electric Revenue Bonds, Series A, B and C (1985 Series A, B and C Bonds) amounting to \$25 million, \$25 million, and \$28.3 million, respectively, were issued to provide for the redemption of the 1984 Series B Electric Revenue Bonds. They bear interest at an adjustable rate, which is determined weekly. The 1985 A, B and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. To provide funds to pay the purchase price of any tendered bonds, which were unable to be marketed, the City initially obtained an irrevocable letter of credit from National Westminster Bank, PLC. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with JPMorgan Chase. Debt service on the 1985 Series A, B and C Bonds is payable from the annual revenues of the Electric Utility Enterprise Fund.

1991 Series B Electric Revenue Refunding Bonds

In January 1992, the City issued \$23.19 million 1991 Series B Electric Revenue Refunding Bonds (Electric 1991B Bonds), net of \$601 thousand in original issue discount. \$2.56 million of the Electric 1991B Bonds were issued as discount capital appreciation bonds (CAB), which gradually increase in value until maturity. On July 1, 2002, the City exercised the option to redeem \$10.32 million of the Electric 1991B Bonds. The remaining portion of the Electric 1991B Bonds, which is the CAB, mature serially in 2005, 2006 and 2007. The issue amount, maturity dates, current and future values of the CAB at maturity are as follows:

<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Value at 6/30/2006</u>	<u>Value at Maturity</u>
\$ 850,096	07/01/06	\$ 2,080,000	\$ 2,080,000
789,208	07/07/07	1,944,558	2,070,000
<u>\$ 1,639,304</u>		<u>\$ 4,024,558</u>	<u>\$ 4,150,000</u>

Subordinated Electric Revenue Refunding Bonds, 1998 Series A

On March 1, 1998, the City issued \$89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts from July 1, 1998 to July 1, 2027 and bear coupon rates ranging from 4.50% to 5.25%. The Electric 1998A Bonds net proceeds totaling \$86.06 million were deposited into an escrow fund. Principal and interest from the escrow fund were applied to retire

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

\$81.65 million of Electric 1991A Bonds on July 1, 2001. Debt service on the Electric 1998A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service payment is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts from July 1, 2005 to July 1, 2025 with the final Term Bond maturity of July 1, 2028 and bear coupon rates ranging from 2.50% to 5.25%. Debt service on the Electric 2003A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series B

On October 9, 2003, Silicon Valley Power issued \$50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003B Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. Coupon rates of the Electric 2003B Bonds are set every 28 days. Debt service on the Electric 2003B is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Water Recycling Utility

The State Water Resource Control Board Loan was issued for the design and construction of pumping facilities and a pipeline to deliver reclaimed water to the City's golf course. Debt service on the loan is payable from the annual revenues of the Water Recycling Utility Enterprise Fund.

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

**E. Repayment Requirements**

As of June 30, 2006, the debt service requirements to maturity for the City's and the Agency's long-term obligations and the funds from which payment will be made are as follows:

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

For the Year Ending June 30	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	8,985,000	10,650,323	11,887,319	11,380,329
2008	9,470,000	10,154,713	12,440,020	11,037,003
2009	10,000,000	9,620,661	11,415,329	10,633,830
2010	10,555,000	9,047,030	11,980,000	10,051,151
2011	17,635,000	8,428,543	8,365,000	9,916,376
2012-2016	58,135,000	32,760,933	32,315,000	45,699,099
2017-2021	56,215,000	18,867,109	42,690,000	36,770,483
2022-2026	30,135,000	4,813,131	56,325,000	24,460,207
2027-2031	6,755,000	1,436,250	48,790,000	10,019,095
2032-2035	1,560,000	78,000	33,800,000	1,885,611
	<u>209,445,000</u>	<u>105,856,693</u>	<u>270,007,668</u>	<u>171,853,184</u>

Reconciliation of Long-term Obligations  
(in thousands)

Principal outstanding as reported above	479,452,668
Plus Insurance Refunding Bonds	20,000,000
Deduct unaccreted Electric Bonds 1991 Series B	(125,442)
Deduct Unamortized discount - Electric Revenue Bonds	(5,123,504)
Total Long-term Obligations	<u>\$ 494,203,722</u>

**F. Defeasances**

The following is a summary of the refunding issues, the issues defeased, and the remaining principal balance of the defeased debt for the City as of June 30, 2006:

Issue Defeased	Interest Rates on Defeased Issue	Originally Defeased	Balance Outstanding on Defeased Bonds	Refunding Issue
Bayshore North 1992 Tax Allocation & Refunding Bonds	5.75%	<u>34,290,000</u>	<u>21,860,000</u>	Bayshore North 2002 Tax Allocation & Refunding Bonds

The proceeds from the above refunding issues are placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds are generally invested in U. S. Treasury Securities, which together with earned interest, will provide amounts sufficient for future payment of interest, principal, and redemption premium on the defeased bonds. These escrow accounts are not included as assets of the City. The defeased bonds are excluded from the City's long-term obligations because the arrangement satisfies legal requirements of defeasance.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**G. Debt Limitations and Restrictions**

The amounts of the City's legal debt limit and debt margin (as defined by Section 1309 of the City Charter) as of June 30, 2006, are \$2.785 billion and \$2.805 billion respectively. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations, covenants and restrictions.

**H. Arbitrage**

According to the regulations set forth by the U. S. Treasury Department, for bond issues subject to arbitrage rebate, earnings in excess of the stated bond rate must be rebated to the federal government every five years. As of June 30, 2006, the City has sixteen outstanding bond issues that are subject to the arbitrage rebate regulations. The City monitors the earnings on each of these issues and records any accrued rebate liability at the end of each individual bond year.

**I. Special Assessment Debt Without City Commitment**

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. With the exception of the Santa Clara Convention Center Improvement Project No. 186, the City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts. Nor is it obligated to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2006, the balance of these districts' outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/06
			Annual Amount	Fiscal Years ended	
Mill Creek - District No. 1	1995	6.67%-7.12%	220,000-365,000	1998-2011	\$1,870,000
Traffic Mitigation District 1988-1 Division No. 2	1996	5.10%-5.90%	220,000-380,000	1998-2012	2,255,000
Mission College/Mercado No. 187	1998	7.00%	390,000-600,000	1999-2011	3,190,000
					<u>\$7,315,000</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**NOTE 12 - SOLID WASTE LANDFILL CLOSURE**

At June 30, 2006, the balance of the Solid Waste Landfill Postclosure Obligation was as follows:

<u>Type of Indebtedness</u>	<u>Outstanding as of June 30, 2005</u>	<u>Reduction</u>	<u>Outstanding as of June 30, 2006</u>
Solid Waste			
Landfill Postclosure Obligation	\$ 5,654,789	\$ 229,723	\$ 5,425,066

The City of Santa Clara All Purpose Landfill (Landfill) was closed in September 1993. Federal and state laws and regulations require closure activities such as removal of landfill structures, decommissioning of environmental control systems, site security, and final cover construction and postclosure care such as ongoing monitoring of environmental impact. The City's postclosure plan (Plan) accepted by the California Integrated Waste Management Board (CIWMB) addresses all the attendant issues. Based on the Plan and pertaining laws and regulations, an estimated Landfill Postclosure Care Cost Obligation is recorded and updated annually. The postclosure care liability is accrued in the Solid Waste Enterprise Fund in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. As of June 30, 2006, the estimated liability totaled \$5.43 million. This obligation is payable from solid waste user fees and any related subsidy from the General Fund.

The City also has a Pledge of Revenue Agreement establishing financial assurance for postclosure maintenance of the Landfill with the CIWMB. As of June 30, 2006, the total pledge amount is \$645 thousand. This amount is reviewed annually and updated for the increase in the San Francisco Bay Region Consumer Price Index.



**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES**

**A. Investments in Joint Venture**

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), M-S-R Public Power Agency (MSR) and Silicon Valley Animal Control Authority (SVACA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	NCPA	TANC	SJSC	MSR	SVACA
Date of latest audited financial statement	6/30/05	6/30/05	6/30/05	12/31/05	6/30/05
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	200 E. Santa Clara St. San Jose, CA 95113	P.O. Box 4060 Modesto, CA 95352	2324 Walsh Ave. Santa Clara, CA 95051

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2006:

	NCPA	TANC	SJSC	MSR
Participating percentage	36.0%	20.2%	16.6%	35.0%
Investment	\$15,796,235	\$71,465	\$85,291,208	-
Method of accounting	Equity	Equity	Equity	Equity

**B. Contingent Liability**

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows (in thousands):

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

	Total Debt	City's Participating Share	City's Contingent Liability
TANC	\$ 362,257	20.2%	\$ 73,176
NCPA	700,714	36.0%	252,257
SJSC	52,658	16.6%	8,726
MSR	376,752	35.0%	131,863
Total	<u>\$ 1,492,381</u>		<u>\$ 466,022</u>

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

**C. Northern California Power Agency (NCPA)**

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW) by 1988, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production to 150 MW gross. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2005 was 129 MW gross.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 101 MW by the year 2015 and remaining in excess of 81 MWG through 2027, the end of the study period.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

**D. Transmission Agency of Northern California (TANC)**

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2005, the most recent data available, TANC's investment in the Project was \$449.8 million, less accumulated depreciation and amortization of \$124.3 million.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

**E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)**

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined in part by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. The City's portion of ownership interest in the net assets of the Plant was approximately 16.2% as of June 30, 2006 and 16.57% for fiscal year 2004-05. The City's share in the operating and maintenance and capital replacement costs for the Plant is further reduced by the shares required by other "tributary agencies". This is approximately 12.5% net for FY 2006-07 (based on FY 2005-06).

**South Bay Water Recycling Program**

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current (2003-2008) 5-year permit from the RWQCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase I) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace contaminants discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 120 miles of pipe, a nine million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$141 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase I costs was approximately \$20.07 million.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

Proceeds from the City of San Jose 1995 Series A and B Bonds and other funds were used to pay for the City of San Jose's share of Phase I. The City contributed existing capital reserves, existing water reclamation distribution system, and additional construction. Other sources for funding of Phase I include U. S. Bureau of Reclamation grants, State of California Revolving Fund loans, \$6.45 million transferred in fiscal 1995 from the Clean Water Financing Authority to the City of San Jose Wastewater Treatment Plant Capital Fund, and cash contributions from other participating agencies.

In June 1997, the RWQCB approved the Proposed Revision to the South Bay Action Plan (the Plan), which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 MGD and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I nonpotable water distribution system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated costs of \$127.5 million was funded through a combination of State Revolving Fund loans, Equipment Replacement Reserves, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions. The current 5-year Waste Discharge Permit for the WPCP has no further action required for additional flow diversion beyond what has been achieved by SBWRP and the Plan.

**F. MSR Public Power Agency**

MSR is a joint power agency formed in 1980 by the Modesto Irrigation District, the City and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 50%; City of Santa Clara – 35%; and City of Redding – 15%.

The City's equity in MSR's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2005, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR was \$79.0 million. Under the joint exercise of power agreement, which formed MSR, the City is responsible for funding up to 35% of MSR's operating cost, to the extent such funding is necessary. During the year ended June 30, 2006, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR and supported by take-or-pay commitments of the equity participants. MSR is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

On June 1, 2005, MSR entered into a series of agreements with PPM Energy (as amended in October, 2005 and restated effective February 1, 2006) to purchase wind power energy with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project are scheduled to begin October 1, 2006. The participation in this project is as follows: Modesto Irrigation District – 12.5%; City of Santa Clara – 52.5%; and City of Redding – 35%.

**G. Central California Power Agency No. 1 (CCPA)**

The Central California Power Agency No. 1 (CCPA) was formed by the City of Santa Clara (10%), the Modesto Irrigation District (40%) and the Sacramento Municipal Utilities District (50%) in 1982 for the purpose of developing and operating Geothermal Power projects. Between 1988 and 1996, CCPA operated the Coldwater Creek Geothermal Power Plant. Operations of this project ceased in 1996 and plant demolition and site restoration activities were completed in 2001. Pursuant to the terms of the Decommissioning Plan filed with the California Energy Commission, post-restoration site monitoring activities were completed in 2005. CCPA was finally dissolved by the CCPA Commission action on June 2, 2006, pursuant to the Dissolution Agreement among the Sacramento Municipal Utilities District, the Modesto Irrigation District, and the City of Santa Clara. On September 1, 2006, the City received a distribution of \$169 thousand for the return of its share in CCPA.

**H. Silicon Valley Animal Control Authority**

The City is a member of the Silicon Valley Animal Control Authority, (SVACA), established in 2000 to deliver animal control and sheltering services to three communities: the cities of Santa Clara, Campbell, and Monte Sereno. SVACA provides its own field services and has an agreement with the Humane Society of Silicon Valley to provide animal shelter services comprised of a shelter facility and staffing. SVACA has purchased an existing building in Santa Clara that is being converted to an animal shelter. The shelter is scheduled to open in the third quarter of 2006, when the contract with the Humane Society Silicon Valley for shelter services will be terminated. SVACA is governed by a Board of Directors comprised of one appointed Councilmember from each of the three member cities.

During the fiscal year ended June 30, 2006 the City of Santa Clara contributed \$883,922 to SVACA. The City's equity interest in SVACA was \$333,743 at June 30, 2005. Audited financial statements are available from SVACA, located at 2324 Walsh Avenue, Santa Clara, CA 95051.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

**A. Plan Description**

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit plan, which is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Offices at 400 "P" Street, Sacramento, California 95814.

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and eligible "as-needed" hourly City employees are required to participate in CalPERS.

**B. Pension Plan Benefits**

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2% at 55 for miscellaneous plan members and 3% at 50 for safety plan members.

- **Miscellaneous Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2% at 55), years of service, and final compensation (monthly average of member's highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

- **Safety Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation. For Fire Safety employees, the final compensation is the monthly average of member's highest 36 consecutive months' full-time equivalent monthly pay, and for Police Safety

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

employees, it is the monthly average of the member's highest 12 consecutive months' full-time equivalent monthly pay. The service retirement benefit for the Safety Plan group is capped at 90% of final compensation.

**C. Funding Policy**

Permanent employees are required to make contributions to their account. For employees who are covered by formulas modified to coordinate with Social Security, a rate of zero is charged for the first \$133.33 per month. The member employees' contribution rates are set by State statute and therefore remain unchanged from year to year. The rates for fiscal year 2005-06 are:

<u>Category</u>	<u>Member Rates As A Percentage of Wages</u>
Miscellaneous Plan Members	7.00%
Safety Plan:	
Fire Public Safety Members	9.00%
Police Public Safety Members	11.25%

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration. The required employer contribution for year ended June 30, 2006 was 12.309% of annual covered payroll for Miscellaneous Plan employees and 26.085% for Safety Plan members (Firefighters and Police Officers). The City's payroll for employees covered by CalPERS for fiscal year ended June 30, 2006 was \$86,808,954 (consisting of \$53,365,912 for Miscellaneous Plan employees and \$33,443,041 for Public Safety Plan employees), out of the total payroll for the City of \$102,471,441.

**D. Annual Pension Cost**

The City's actuarial required contribution rates and incurred costs paid to CalPERS for the last three fiscal years is as follows:

<u>Fiscal Year Ending</u>	<u>Required Contribution Rates</u>		<u>Annual Pension Cost (APC) for Safety and Miscellaneous Employees</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
	<u>Safety</u>	<u>Miscellaneous</u>			
06/30/04	18.140%	2.763%	\$ 7,818,352	100%	
06/30/05	25.703%	8.613%	\$ 13,172,210	100%	
06/30/06	26.085%	12.309%	\$ 15,293,428	100%	



**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

The required contribution for the year ended June 30, 2006 was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. The remaining amortization period at June 20, 2003 was 30 years for the Safety Plan and 30 years for the Miscellaneous Plan.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2006 include the following:

- A rate of return on the investment of present and future assets of 7.75% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for Miscellaneous Plan members, and 3.25% to 11.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30:

**Funded Status of Miscellaneous Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2002	\$230,490,113	\$225,036,683	\$ 5,453,430	97.6%	\$50,866,740	10.7%
6/30/2003	\$265,695,242	\$226,210,767	\$39,484,475	85.1%	\$54,982,415	71.8%
6/30/2004	\$283,719,693	\$237,911,065	\$45,808,628	83.9%	\$56,026,030	81.8%

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

**Funded Status of Safety Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2002	\$325,108,376	\$283,428,199	\$41,680,177	87.2%	\$32,851,013	126.9%
6/30/2003	\$347,909,118	\$286,386,614	\$61,522,504	82.3%	\$35,320,492	174.2%
6/30/2004	\$362,309,157	\$303,280,990	\$59,028,167	83.7%	\$34,052,853	173.3%

**NOTE 15 – RETIREMENT PLAN (DEFINED CONTRIBUTION PLAN)**

The City's PARS (Public Agency Retirement System) Plan (Plan) is a compulsory retirement plan that qualifies under Section 401 of the Internal Revenue Code covering City employees who are not members of PERS. Under the provisions of the Plan, the City makes no contributions; however all administrative costs of the plan are funded by the City. The Plan administrator is Phase II Systems. The total assets of the Plan are held in trust for the employees and are not included in the City's assets or equity.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 16 – POST RETIREMENT BENEFITS**

The City currently operates four retired employee medical-dental or medical only programs. The first program (Program “A”) was established by the City Council in 1981 and applies to employees who retired prior to October 5, 1986 and have an annual family income of less than \$35,000. The second program (Program “B”) was established in August 1987 and is available to all retired employees or annuitants that are enrolled in the PERS Health Insurance Program. The third program (Program “C”) was established in August 2001 and it applies to employees with a minimum of ten years of service with the City and has a family income less than \$56,741 in 2005. A fourth program (Program “D”) was established in December 2003 designed to reimburse retired members with at least 10 years of service up to \$256 per month for qualified expenses.

Program “A” 1986 Retiree Medical/Dental Reimbursement Program

Program “A” provides for reimbursement of medical insurance premiums for retired employees. The amount is limited to the lowest cost employee-only insurance available to active employees. Additionally, the retired employees are eligible for dental reimbursement up to two-thirds of the amount for active employees (active employees are currently eligible to receive up to fifteen hundred dollars per year). As of June 30, 2006, 21 retirees participated in Program “A”. Reimbursements for medical and dental benefits under this program were \$68,480 and \$7,501, respectively, for the year ended June 30, 2006.

Program “B” PEMHCA Minimum

Program “B” allows active City employees, on a bargaining unit basis, to be enrolled in the PERS Health Insurance Program. Under the City’s contract with PERS, in order for the City to be in the program, all retired employees or annuitants must also have the opportunity to be enrolled in the PERS Health Insurance Program. Therefore, the City must make a minimum monthly payment of \$64.60 per retired employee or annuitant. As part of the negotiation process to develop this program, the City agreed to pay the minimum payment on behalf of the retirees or annuitants that retired prior to August 1, 1987.

The minimum payment for retirees or annuitants that retired on or after August 1, 1987 is charged against a fund that is generated from an allocation against active employees total compensation. Currently, the allocation is \$2 per month per employee. As of June 30, 2006, 430 retirees or annuitants participated in Program “B”. The total of minimum monthly payments made by the City for this program on behalf of the retirees and annuitants was \$305,976 for the year ended June 30, 2006.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 16 – POST RETIREMENT BENEFITS (Continued)**

Program “C” 2002 Retiree Medical Reimbursement Program

Program “C” was established by City Council on August 28, 2001 to reimburse regular employees with a minimum of ten years of City service who retire from the City. A reimbursement up to \$238 per month is available for retirees under the age of 65 who have family income less than \$56,741 per year or less (the family income figure is indexed annually per CPI). For retirees over the age of 65, who have a family income less than \$56,741 per year or less is entitled to a reimbursement up to \$158 per month. The total cost for this program capped at \$876,462 per year. Retirees with family income greater than \$56,741 a year may qualify for \$105 per month, if the funds are available. The payments under this plan for the year ended June 30, 2006 were \$330,310.

Program “D” 2003 Plan and Fire Union Plan

Program “D” was established in the Memoranda of Understanding effective December 21, 2003 with each City’s bargaining units. The program reimburses retired employees to age 65 with at least 10 years of service up to \$256 per month for qualifying medical expenses. After age 65, the reimbursement amount is up to \$154 per month for qualifying medical expenses. The program is funded by employer contributions. Total payments under this plan for the year ended June 30, 2006 were \$263,412.

**NOTE 17 – DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In applying the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has determined that it is not required to record the assets and associated liabilities of the plan.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER**

**A. Long-term Power Purchase Contracts**

The City purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, M-S-R Public Power Agency, PG&E, Western Area Power Administration, and other sources to supply the power requirements of the City's electric utility customers. The City actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

**B. Restructuring of the California Electric Industry**

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's right to collect such a charge. That validation was secured in 2000, and the City's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, the City has deferred implementation of its direct access program.

Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City developed a strategic plan to guide its electric utility's transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs. As of June 30, 2006, the balance of the Cost Reduction Account is \$241.97 million.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (Continued)**

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

Energy Wholesale Trading and Risk Management

SVP participates in the California deregulated wholesale gas and power market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$249.50 million and \$255.19 million, respectively, for fiscal year ended June 30, 2006 have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivables representing delivered but unbilled energy, and corresponding payable amounts totaling \$26.15 million and \$24.86 million respectively, have been reported in the proprietary funds statement of net assets.

The trading activity exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

Credit Arrangements

The City and SVP have trading business support deposits and credit arrangements including an \$85 million collateralized credit facility with Bank of America. This letter of credit facility with an expiration date of March 1, 2007 is available to the trading operation as a credit enhancement facility, as necessary. As of June 30, 2006, there was one letter of credit (\$200 thousand) issued to a third party out of the total available standby letter of credit of \$85 million.

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, and evaluation of potential counterparties' financial condition and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

Provision for Disputed SCS charges

In November 1999, PG&E filed with the Federal Energy Regulatory Commission (FERC) its Schedule of Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Santa Clara and other municipal users certain costs imposed by the CAISO on PG&E for the period April 1998 to August 2002. On June 1, 2004, PG&E began billing Santa Clara for these costs. These costs, which were

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (Continued)**

billed over a twelve-month period, accumulated to approximately \$24.0 million, including interest. SVP, in accordance with the SCS Tariff, made the twelve monthly payments into an escrow account.

On May 17, 2005, Santa Clara and PG&E filed with FERC, a settlement in the amount of \$10 million, which, however, is ultimately conditional on the outcome of PG&E's appeal of FERC's Opinions Nos. 458 and 458-A, which prohibited PG&E from seeking recovery of its SCS costs from all of its transmission customers, before the District Court of Appeal for the District of Columbia (D.C. Circuit Court). On May 24, 2005, the City Council approved the settlement. On June 24, 2005, FERC issued an order accepting the settlement.

On July 12, 2005, the D.C. Circuit Court issued an order vacated FERC's Opinions 458 and 458-A and remanded the case to FERC "for further proceedings consistent with the [California Independent System Operator] tariff." Under the terms of the settlement, if FERC issues a new order granting PG&E's motion to assess the SCS charges upon its customers, Santa Clara is entitled to a full refund of the \$10 million settlement; however, if on remand FERC finds that some portion of the SCS charges are yet due from Santa Clara under the SCS tariff, then Santa Clara will not recover the \$10 million amount of the settlement. On August 5, 2005, in accordance with the settlement agreement, SVP submitted the \$10 million payment to PG&E and closed the escrow account. The FERC subsequently agreed in its order dated December 20, 2005 that PG&E can recover the disputed SCS charges from its customers. Accordingly, in June 2006, PG&E refunded to SVP the subject \$10 million payment, plus interest.

**C. 2006 Rate Increases**

In December 2005, the City Council adopted a 5% rate increase to be effective January 2006 and a further 5% increase to be effective July 2006. The primary reason for this increase is rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. City staff is continuing to monitor costs and revenues and to assess whether recommendations for future rate increases may be necessary.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 19– NET ASSETS/FUND EQUITY**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A. Net Assets**

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include investments in joint ventures, developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate-income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**B. Fund Balances/Net Assets, Reserves and Designations**

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings that has been encumbered or is legally segregated for a specific future use. A reserved retained earnings represents contractual obligations. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate the City Council's plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and the appropriations might not ever be legally authorized or result in expenditures.

**C. Net Asset/Fund Balance Deficits**

The funds listed on the following page had an accumulated deficit as of June 30, 2006:

Fund Name	Accumulated Deficit
Enterprise Funds:	
Solid Waste	\$ 3,398,354
Cemetery	142,448
Internal Service Funds:	
Workers' Compensation Insurance Claims	\$ 10,807,528



**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

The Solid Waste Enterprise Fund accumulated deficit is the result of the unfunded post closure liability associated with the closure of the City's Landfill. It is anticipated that future earnings and operating transfers will be sufficient to meet the City's post closure obligation. The City's long term plans include construction of additional facilities that will help bring the Cemetery Enterprise Fund closer towards recovery. The Workers Compensation Insurance Claims' Internal Service Fund accumulated deficit is expected to be offset by future charges to the General Fund and the proprietary funds

**NOTE 20 – RISK MANAGEMENT**

**A. Normal Course of Business**

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in its Internal Service Funds. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. As of June 30, 2006, the amount of these liabilities was \$9,695,280.

This liability is the City's best estimate based upon available information which is included in accrued liabilities.

Changes in the reported liability since June 30, 2006 resulted from the following (in thousands):

	<u>Special Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Liability as of June 30, 2004 (all current)	\$ 254,362	\$ 8,700,035	\$ 8,954,397
Claims and changes in estimates during fiscal 2005	1,170,254	4,064,968	5,235,222
Claim payments	<u>(1,142,085)</u>	<u>(3,352,254)</u>	<u>4,494,339</u>
Liability as of June 30, 2005 (all current)	282,531	9,412,749	9,695,280
Claims and changes in estimates during fiscal 2006	935,313	7,515,677	8,450,990
Claim payments	<u>(772,266)</u>	<u>(3,482,994)</u>	<u>(4,255,260)</u>
Liability as of June 30, 2006 (all current)	<u>\$ 445,578</u>	<u>\$ 13,445,432</u>	<u>\$ 13,891,010</u>

With respect to the Special Liability accrual of \$445,578, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2006. The City Attorney has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or ranges of potential loss to the City. As a result of such review, the City Attorney has categorized the various claims and lawsuits as "probable," "reasonably possible," and "remote" loss contingencies, as defined in SFAS No. 5, *Accounting for Contingencies*.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

**NOTE 20 - RISK MANAGEMENT (Continued)**

The City Attorney has determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and lawsuits as of June 30, 2006, are approximately \$445,578. The final outcome of claims and lawsuits, which have been categorized as reasonably possible loss contingencies, is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

**B. Enron Claim**

The City's Electric Utility Fund had a Master Agreement with Enron Power marketing, Inc. beginning in September 1999 covering short and long term energy trading commitments and transactions. Pursuant to the Master Agreement, the City engaged in multiple short term energy transactions with Enron from

September 1999 through early December 2001 and entered into two long-term agreements for the purchase of energy, one ending in 2006 and the other in 2009. The short-term transactions included both sales and purchases of energy between the City and Enron.

On December 2, 2001 Enron filed for bankruptcy in New York. Within a month, Enron ceased making any deliveries of energy to the City. In July 2002, Enron filed an adversary proceeding against the City claiming the City had breached the Master Agreement. Enron claimed the City failed to pay for energy purchases demanded shortly before it filed for bankruptcy. Enron alleged that it is permitted to claim "in excess of \$100 million" from the City as "Early Terminations Damages" under the Master Agreement.

In 2002, the Federal Energy Regulatory Commission (FERC) opened a Gaming and Partnership Proceeding in which Enron is the only remaining Respondent. In July 2004, the City also filed its own Complaint at the FERC against Enron under Section 206 of the Federal Power Act. Under Section 1290 of the Energy Policy Act of 2005 ("the Cantwell Amendment"), exclusive jurisdiction was given to FERC to determine termination disputes.

During the spring of 2006, the City agreed to settlements with Enron and the FERC Trial Staff, ending four years of litigation. Under the settlement, a one-time payment of \$36.5 million was made by the City to Enron; Enron granted a Class 6 unsecured claim to FERC Trial Staff of \$5 million; and FERC Trial Staff allocated and assigned \$4 million of the unsecured claim to the City. The settlements have been approved by the Bankruptcy Court and by the FERC Commission. The settlement was paid out of reserve and ends an expensive and lengthy litigation involving multiple parties in multiple legal proceedings. A portion of the \$36.5 million has been recognized as an expense in prior years resulting in a net expense of \$21.5 million for fiscal year 2005-06.

**NOTE 21 – COMMITMENTS AND CONTINGENCIES**

The City has future commitments under constructions projects as detailed in Note 10A, electricity purchase contracts as discussed in Note 18A, and is contingently liable under joint venture agreements discussed in note 13B.

The City also participates in several federal and state grant programs. In accordance with the provisions of the federal Single Audit Act, Office of Management and Budget Circular A-133, and applicable State

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2006**

requirements, the City's independent certified public accountants have audited these programs. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

***Required Supplementary  
Information***

<p style="text-align: center;">CITY OF SANTA CLARA NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</p>
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## **1 - BUDGETS AND BUDGETARY ACCOUNTING**

The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis actual are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the liability is incurred.
- Expenditures of prior year encumbrances are recognized on the GAAP basis in the current year, while on the budgetary basis prior year encumbrances were recognized in the prior year.
- Accrued liabilities and compensated absences are recognized on the GAAP basis, while the budgetary basis does not recognize accrued liabilities.
- Revenues considered susceptible to accrual on the GAAP basis are not recognized on the budgetary basis until received.
- Increases to certain GAAP basis advances to other funds are treated as expenditures for budgetary basis financial statements.
- Component units and proprietary funds included in the City's basic financial statements, for which no annual budgets are prepared, are excluded from the budgetary basis financial statements.

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 37,053,000	\$ 37,053,000	\$ 38,142,524	\$ 1,089,524
Ad valorem	20,115,000	20,115,000	22,032,336	1,917,336
Transient occupancy	7,904,000	7,904,000	9,341,790	1,437,790
Other	3,227,000	3,227,000	4,615,349	1,388,349
Licenses, permits, fines and penalties	4,439,930	4,463,830	4,993,868	530,038
Intergovernmental	1,948,908	1,979,043	3,210,888	1,231,845
Charges for services	15,765,796	15,783,452	18,325,581	2,542,129
Contributions in-lieu of taxes	12,165,295	12,165,295	12,860,316	695,021
Interest and rents	9,089,998	9,113,005	7,338,161	(1,774,844)
Other	225,000	226,607	118,938	(107,669)
Total Revenues	111,933,927	112,030,232	120,979,751	8,949,519
EXPENDITURES				
Current:				
General government:				
General Administration:				
Salary & benefits	1,189,471	2,818,229	2,818,065	164
Material, service & supplies	9,860,214	9,792,979	9,788,699	4,280
Internal service fund charges	106,988	106,988	106,988	-
Total General Administration	11,156,673	12,718,196	12,713,752	4,444
City Clerk:				
Salary & benefits	437,000	453,369	453,312	57
Material, service & supplies	87,540	97,540	97,492	48
Internal service fund charges	2,300	2,300	2,300	-
Total City Clerk	526,840	553,209	553,104	105
City Attorney:				
Salary & benefits	1,050,608	1,076,350	1,026,141	50,209
Material, service & supplies	67,405	109,098	105,313	3,785
Internal service fund charges	4,942	4,942	4,942	-
Total City Attorney	1,122,955	1,190,390	1,136,396	53,994
Human Resources:				
Salary & benefits	1,565,233	1,428,895	1,428,880	15
Material, service & supplies	275,725	293,125	293,124	1
Internal service fund charges	8,020	8,020	8,020	-
Total Human Resources	1,848,978	1,730,040	1,730,024	16

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Salary & benefits	5,263,412	5,246,615	5,246,602	13
Material, service & supplies	982,986	911,786	911,754	32
Internal service fund charges	83,498	83,498	83,498	-
Total Finance	6,329,896	6,241,899	6,241,854	45
Total General Government	20,985,342	22,433,734	22,375,130	58,604
Public Works:				
Salary & benefits	11,001,737	10,384,085	10,383,911	174
Material, service & supplies	2,174,046	2,187,148	2,174,089	13,059
Internal service fund charges	888,470	888,470	888,470	-
Total Public Works	14,064,253	13,459,703	13,446,470	13,233
Parks and Recreation:				
Salary & benefits	8,367,512	8,089,513	8,089,509	4
Material, service & supplies	1,687,715	2,112,616	2,112,541	75
Internal service fund charges	416,954	416,954	416,954	-
Capital outlay	6,500	-	-	-
Total Parks and Recreation	10,478,681	10,619,083	10,619,004	79
Public Safety:				
Police:				
Salary & benefits	30,279,068	30,867,369	30,867,343	26
Material, service & supplies	1,815,569	2,226,961	1,627,702	599,259
Internal service fund charges	1,964,549	1,964,549	1,964,549	-
Total Police	34,059,186	35,058,879	34,459,594	599,285
Fire:				
Salary & benefits	25,778,537	26,446,739	26,444,431	2,308
Material, service & supplies	702,020	805,274	638,102	167,172
Internal service fund charges	1,428,007	1,428,007	1,428,007	-
Capital outlay	50,447	72,179	42,590	29,589
Total Fire	27,959,011	28,752,199	28,553,130	199,069

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

	Budgeted Amounts		Actual Amounts	Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Planning & Inspection:				
Salary & benefits	4,626,320	4,388,618	4,388,528	90
Material, service & supplies	484,490	553,662	553,661	1
Internal service fund charges	72,798	72,798	72,798	-
Total Planning & Inspection	5,183,608	5,015,078	5,014,987	91
Total Public Safety	67,201,805	68,826,156	68,027,711	798,445
Library:				
Salary & benefits	5,145,373	4,880,250	4,880,221	29
Material, service & supplies	1,290,750	2,094,238	1,513,829	580,409
Internal service fund charges	79,540	79,540	79,540	-
Total Library	6,515,663	7,054,028	6,473,590	580,438
Total Expenditures	119,245,744	122,392,704	120,941,905	1,450,799
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,311,817)	(10,362,472)	37,846	10,400,318
OTHER FINANCING SOURCES (USES)				
Transfers in	11,773,555	11,856,820	11,614,339	(242,481)
Transfers (out)	(13,132,060)	(16,794,167)	(16,794,167)	-
Sale of capital assets	-	-	1,701,124	1,701,124
Total Other Financing Sources (Uses)	(1,358,505)	(4,937,347)	(3,478,704)	1,458,643
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(8,670,322)	(15,299,819)	(3,440,858)	<u>\$ 11,858,961</u>
ADJUSTMENTS TO BUDGETARY BASIS:				
Expenditures of prior year encumbrances recognized on the GAAP basis			2,542,309	
Current year encumbrances recognized on the budgetary basis			(2,732,625)	
Net change in receivables recognized on the GAAP basis			(5,769,027)	
Net change in accrued liabilities recognized on the GAAP basis			(548,501)	
Fund balance - July 1, as Restated	77,406,659	77,406,659	77,406,659	
Fund balance - June 30	<u>\$ 68,736,337</u>	<u>\$ 62,106,840</u>	<u>\$ 67,457,957</u>	



# ***Non-Major Funds Statements***

## GAS TAX

The fund account for revenues and expenditures received from the State under Street and Highways Codes Sections 2105 (Gas Tax 2105), 2106 (Collier-Unruh) and 2107 (Special Gas Tax). The allocations must be spent for street maintenance or construction and a limited amount for engineering.

## COMMUNITY ACTIVITIES

This fund accounts for fees and expenses related to certain special recreation activity programs for adults (including seniors), and teens.

## HUD PROGRAMS

This fund accounts for grant funds received from other governmental agencies for the purpose of developing viable urban communities.

## MAINTENANCE

This fund account for the maintenance of two Parking Districts located near the City's Convention Center and the downtown area. Funds are received by means of a Special Benefit Assessment levied against the property owners in the respective districts.

## OPERATING GRANTS FUND

This fund accounts for grant funds received from other governmental agencies for various operating activities.

## SPECIAL ASSESSMENTS

This fund accumulates monies for payment of Special Assessment bonds which are financed by assessments placed on the County tax roll.

## PUBLIC FACILITIES FINANCING CORPORATION

This fund accumulates monies for the repayment of Certificates of Participation, which are financed by lease payments made by the City's General Fund to the PFFC for use of the Police Administration Building site.

## GENERAL GOVERNMENT

This fund accumulates monies for the payment of General Government long-term obligations, which are financed by various General Fund revenues.

## PARKS AND RECREATION

This fund was established to account for revenues, contributions and reimbursements received and costs incurred in connection with the acquisition and construction of the City Parks.

## STREET AND HIGHWAYS IMPROVEMENT

This fund is used to account for revenues and expenditures related to road construction and traffic improvements.

#### STORM DRAIN IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City's storm drainage system.

#### FIRE DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modifications of City fire stations.

#### LIBRARY DEPARTMENT IMPROVEMENTS

This fund is used to account for revenues and expenditures related to the construction or modification of the City library facilities.

#### PUBLIC BUILDINGS

This fund is used to account for revenues and expenditures related to the construction, acquisition or modification of public improvements not accounted for in another Capital Project Fund.

#### STREET BEAUTIFICATION

This fund is used to account for revenues and expenditures related to the landscaping of City streets.

#### SPECIAL ASSESSMENTS

Included Special Assessment District funds used to finance public improvements deemed to benefit the properties against which special assessments are made.

#### PERPETUAL FUND AND ENDOWMENT FUND

These funds account for cemetery maintenance funded by plot owners.

#### CHARITABLE TRUST FUND

This fund accounts for the various gifts, donations and bequests received by the City.

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**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

**SPECIAL REVENUE FUNDS**

	<u>Gas Tax</u>	<u>Community Activities</u>	<u>HUD Programs</u>	<u>Maintenance</u>
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 8,995,122	\$ 843,431	\$ 48,938	\$ 336,320
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	94,148
Receivables (net of allowance for uncollectibles):				
Accounts	-	641	-	-
Interest	-	-	-	-
Loans	-	-	11,029,547	-
Special assessments	-	-	-	-
Intergovernmental	187,009	10,644	2,561,618	-
Due from other funds	-	-	-	9,972
Investments with fiscal agent - noncurrent	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 9,182,131</u></u>	<u><u>\$ 854,716</u></u>	<u><u>\$ 13,640,103</u></u>	<u><u>\$ 440,440</u></u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 831,291	\$ 37,597	\$ 227,424	\$ 53,000
Due to other funds	-	-	92,800	-
Deferred revenue	-	25,630	13,195,596	-
<b>Total Liabilities</b>	<u><u>831,291</u></u>	<u><u>63,227</u></u>	<u><u>13,515,820</u></u>	<u><u>53,000</u></u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	384,522	1,490	227,238	45
Reserved for debt service	-	-	-	-
Reserved for special programs	187,009	789,999	-	293,247
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	7,779,309	-	-	94,148
Capital projects funds	-	-	-	-
Undesignated				
Reported in:				
Special revenue funds	-	-	(102,955)	-
<b>TOTAL FUND BALANCES</b>	<u><u>8,350,840</u></u>	<u><u>791,489</u></u>	<u><u>124,283</u></u>	<u><u>387,440</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 9,182,131</u></u>	<u><u>\$ 854,716</u></u>	<u><u>\$ 13,640,103</u></u>	<u><u>\$ 440,440</u></u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

	<u>DEBT SERVICE FUNDS</u>			
	<u>Operating Grants Fund</u>	<u>Special Assessment</u>	<u>Public Facilities Financing Corp.</u>	<u>General Government</u>
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 246,745	\$ 2,796,376	\$ 413,768	\$ 782,745
Investments with fiscal agent - current	-	-	812	316
Cash designated for construction	-	-	-	-
Receivables (net of allowance for uncollectibles)				
Accounts	-	-	-	-
Interest	-	-	49,622	68,815
Loans	-	-	-	-
Special assessments	-	5,015,000	-	-
Intergovernmental	86,446	-	-	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	3,090,903	3,492,919
Total Assets	<u>\$ 333,191</u>	<u>\$ 7,811,376</u>	<u>\$ 3,555,105</u>	<u>\$ 4,344,795</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 43,961	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred revenue	-	5,015,000	-	-
Total Liabilities	<u>43,961</u>	<u>5,015,000</u>	<u>-</u>	<u>-</u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	1,477	-	-	-
Reserved for debt service	-	2,796,376	3,555,105	4,344,795
Reserved for special programs	287,753	-	-	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
TOTAL FUND BALANCES	<u>289,230</u>	<u>2,796,376</u>	<u>3,555,105</u>	<u>4,344,795</u>
Total Liabilities and Fund Balances	<u>\$ 333,191</u>	<u>\$ 7,811,376</u>	<u>\$ 3,555,105</u>	<u>\$ 4,344,795</u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

**CAPITAL PROJECTS FUNDS**

	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement	Fire Department Improvement
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 3,167,954	\$ 13,469,759	\$ 2,618,762	\$ 3,639,359
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	3,210,024	-	-
Receivables (net of allowance for uncollectibles)				
Accounts	-	-	4,348	-
Interest	-	-	-	-
Loans	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	927,518	-	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
<b>Total Assets</b>	<b>\$ 3,167,954</b>	<b>\$ 17,607,301</b>	<b>\$ 2,623,110</b>	<b>\$ 3,639,359</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 594,927	\$ 404,004	\$ 26,692	\$ 118,679
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
<b>Total Liabilities</b>	<b>594,927</b>	<b>404,004</b>	<b>26,692</b>	<b>118,679</b>
<b>FUND EQUITY</b>				
Reserved for encumbrances	2,356,417	179,257	258	134,779
Reserved for debt service	-	-	-	-
Reserved for special programs	-	-	-	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	216,610	17,024,040	2,596,160	3,385,901
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>2,573,027</b>	<b>17,203,297</b>	<b>2,596,418</b>	<b>3,520,680</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,167,954</b>	<b>\$ 17,607,301</b>	<b>\$ 2,623,110</b>	<b>\$ 3,639,359</b>

(Continued)

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

**CAPITAL PROJECTS FUNDS**

	<u>Library Department Improvements</u>	<u>Public Buildings</u>	<u>Street Beautification</u>	<u>Special Assessment</u>
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 1,723,013	\$12,153,094	\$ 108,957	\$ 938,964
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	-
Receivables (net of allowance for uncollectibles)				
Accounts	-	-	25,280	-
Interest	-	-	-	-
Loans	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 1,723,013</u></u>	<u><u>\$12,153,094</u></u>	<u><u>\$ 134,237</u></u>	<u><u>\$ 938,964</u></u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 8,000	\$ 563,641	\$ 3,813	\$ -
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
<b>Total Liabilities</b>	<u><u>8,000</u></u>	<u><u>563,641</u></u>	<u><u>3,813</u></u>	<u><u>-</u></u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	-	640,364	336	-
Reserved for debt service	-	-	-	-
Reserved for special programs	-	-	-	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	1,715,013	10,949,089	130,088	938,964
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u><u>1,715,013</u></u>	<u><u>11,589,453</u></u>	<u><u>130,424</u></u>	<u><u>938,964</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 1,723,013</u></u>	<u><u>\$12,153,094</u></u>	<u><u>\$ 134,237</u></u>	<u><u>\$ 938,964</u></u>



**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

**PERMANENT FUNDS**

	Perpetual Care	Endowment Fund	Charitable Trust	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 38,244	\$ 901,693	\$ 181,794	\$ 53,405,038
Investments with fiscal agent - current	-	-	-	1,128
Cash designated for construction	-	-	-	3,304,172
Receivables (net of allowance for uncollectibles)				
Accounts	-	-	-	30,269
Interest	-	-	20,796	139,233
Loans	-	-	-	11,029,547
Special assessments	-	-	-	5,015,000
Intergovernmental	-	-	-	3,773,235
Due from other funds	-	-	-	9,972
Investments with fiscal agent - noncurrent	-	-	2,944,126	9,527,948
<b>Total Assets</b>	<b>\$ 38,244</b>	<b>\$ 901,693</b>	<b>\$ 3,146,716</b>	<b>\$ 86,235,542</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ -	\$ -	\$ -	\$ 2,913,029
Due to other funds	-	-	-	92,800
Deferred revenue	-	-	-	18,236,226
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,242,055</b>
<b>FUND EQUITY</b>				
Reserved for encumbrances	-	-	-	3,926,183
Reserved for debt service	-	-	-	10,696,276
Reserved for special programs	38,244	901,693	3,146,716	5,644,661
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	7,873,457
Capital projects funds	-	-	-	36,955,865
Undesignated				
Reported in:				
Special revenue funds	-	-	-	(102,955)
<b>TOTAL FUND BALANCES</b>	<b>38,244</b>	<b>901,693</b>	<b>3,146,716</b>	<b>64,993,487</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 38,244</b>	<b>\$ 901,693</b>	<b>\$ 3,146,716</b>	<b>\$ 86,235,542</b>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006**

**SPECIAL REVENUE FUNDS**

**REVENUES**

Taxes:

Other

Intergovernmental

Charges for services

Interest and rents

Decrease of Pooled Investments

due to Market Value

Other

Total Revenues

**EXPENDITURES**

Current

General Administration

Public Works

Parks and Recreation

Public Safety:

Police

Fire

Library

Capital outlay

Debt service

Principal payments

Interest and fiscal fees

Bond cost expense

Total Expenditures

**EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES**

**OTHER FINANCING SOURCES (USES)**

Transfers in

Transfers (out)

Total Other Financing Sources (Uses)

Net change in fund balances

Fund balances at the beginning of period

**FUND BALANCES AT END OF PERIOD**

	Gas Tax	Community Activities	HUD Programs	Maintenance
\$ -	\$ -	\$ -	\$ -	\$ -
2,404,917	74,250	1,793,165	-	-
-	620,068	-	509,846	-
368,537	6,930	-	43,617	-
-	-	-	-	-
265	49,120	498,586	-	-
2,773,719	750,368	2,291,751	553,463	
-	781,012	1,250,337	-	-
451,539	-	-	1,399,455	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,150,834	-	691,873	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,602,373	781,012	1,942,210	1,399,455	
(828,654)	(30,644)	349,541	(845,992)	
-	-	-	722,111	-
(515,000)	(15,846)	(484,227)	-	-
(515,000)	(15,846)	(484,227)	722,111	
(1,343,654)	(46,490)	(134,686)	(123,881)	
9,694,494	837,979	258,969	511,321	
\$ 8,350,840	\$ 791,489	\$ 124,283	\$ 387,440	

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006**

	DEBT SERVICE FUNDS			
	Operating Grants Fund	Special Assessment	Public Facilities Financing Corp.	General Government
<b>REVENUES</b>				
Taxes:				
Other	\$ -	\$ 1,158,153	\$ -	\$ -
Intergovernmental	997,387	-	-	-
Charges for services	73,538	-	-	-
Interest and rents	130	52,809	109,686	91,400
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	-	-	-	340,111
<b>Total Revenues</b>	<b>1,071,055</b>	<b>1,210,962</b>	<b>109,686</b>	<b>431,511</b>
<b>EXPENDITURES</b>				
Current				
General Administration	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Public Safety:				
Police	361,218	-	-	-
Fire	449,566	-	-	-
Library	270,817	-	-	-
Capital outlay	117,138	-	-	-
Debt service				
Principal payments	-	825,000	985,000	2,395,000
Interest and fiscal fees	-	317,953	1,851,726	1,102,548
Bond cost expense	-	805	7,279	5,553
<b>Total Expenditures</b>	<b>1,198,739</b>	<b>1,143,758</b>	<b>2,844,005</b>	<b>3,503,101</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(127,684)</b>	<b>67,204</b>	<b>(2,734,319)</b>	<b>(3,071,590)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	64,826	-	2,759,586	3,125,632
Transfers (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>64,826</b>	<b>-</b>	<b>2,759,586</b>	<b>3,125,632</b>
<b>Net change in fund balances</b>	<b>(62,858)</b>	<b>67,204</b>	<b>25,267</b>	<b>54,042</b>
<b>Fund balances at the beginning of period</b>	<b>352,088</b>	<b>2,729,172</b>	<b>3,529,838</b>	<b>4,290,753</b>
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 289,230</b>	<b>\$ 2,796,376</b>	<b>\$ 3,555,105</b>	<b>\$ 4,344,795</b>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006**

	CAPITAL PROJECTS FUNDS			
	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement	Fire Department Improvement
<b>REVENUES</b>				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	1,493,329	-	-
Charges for services	-	199,118	128,864	-
Interest and rents	-	493,417	-	-
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	23,215	18,934	105,609	-
<b>Total Revenues</b>	<b>23,215</b>	<b>2,204,798</b>	<b>234,473</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current				
General Administration	-	-	-	-
Public Works	-	3,063	144,022	-
Parks and Recreation	71,159	-	-	-
Public Safety:				
Police	-	-	-	-
Fire	-	-	-	52,915
Library	-	-	-	-
Capital outlay	9,217,009	1,486,159	253,441	2,226,658
Debt service				
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
<b>Total Expenditures</b>	<b>9,288,168</b>	<b>1,489,222</b>	<b>397,463</b>	<b>2,279,573</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(9,264,953)</b>	<b>715,576</b>	<b>(162,990)</b>	<b>(2,279,573)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	572,570	-	-	2,942,000
Transfers (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>572,570</b>	<b>-</b>	<b>-</b>	<b>2,942,000</b>
<b>Net change in fund balances</b>	<b>(8,692,383)</b>	<b>715,576</b>	<b>(162,990)</b>	<b>662,427</b>
<b>Fund balances at the beginning of period</b>	<b>11,265,410</b>	<b>16,487,721</b>	<b>2,759,408</b>	<b>2,858,253</b>
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 2,573,027</b>	<b>\$ 17,203,297</b>	<b>\$ 2,596,418</b>	<b>\$ 3,520,680</b>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006**

CAPITAL PROJECTS FUNDS

	<u>Library Department Improvements</u>	<u>Public Buildings</u>	<u>Street Beautification</u>	<u>Special Assessment</u>
<b>REVENUES</b>				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Interest and rents	-	-	-	21,199
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	-	164,976	37,675	-
	<u>-</u>	<u>164,976</u>	<u>37,675</u>	<u>-</u>
<b>Total Revenues</b>	<u>-</u>	<u>164,976</u>	<u>37,675</u>	<u>21,199</u>
<b>EXPENDITURES</b>				
Current				
General Administration	-	1,336,922	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Public Safety:				
Police	-	-	-	-
Fire	-	-	-	-
Library	-	-	-	-
Capital outlay	82,567	5,109,473	84,394	-
Debt service				
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
<b>Total Expenditures</b>	<u>82,567</u>	<u>6,446,395</u>	<u>84,394</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(82,567)</u>	<u>(6,281,419)</u>	<u>(46,719)</u>	<u>21,199</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	5,304,549	60,000	-
Transfers (out)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>5,304,549</u>	<u>60,000</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(82,567)</u>	<u>(976,870)</u>	<u>13,281</u>	<u>21,199</u>
<b>Fund balances at the beginning of period</b>	<u>1,797,580</u>	<u>12,566,323</u>	<u>117,143</u>	<u>917,765</u>
<b>FUND BALANCES AT END OF PERIOD</b>	<u><u>\$ 1,715,013</u></u>	<u><u>\$ 11,589,453</u></u>	<u><u>\$ 130,424</u></u>	<u><u>\$ 938,964</u></u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006**

	PERMANENT FUNDS			Total Nonmajor Governmental Funds
	Perpetual Care	Endowment Fund	Charitable Trust	
<b>REVENUES</b>				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ 1,158,153
Intergovernmental	-	-	-	6,763,048
Charges for services	-	25,194	-	1,556,628
Interest and rents	1,618	37,605	128,652	1,355,600
Decrease of Pooled Investments due to Market Value	-	-	37,735	37,735
Other	-	-	-	1,238,491
<b>Total Revenues</b>	<b>1,618</b>	<b>62,799</b>	<b>166,387</b>	<b>12,109,655</b>
<b>EXPENDITURES</b>				
Current				
General Administration	-	-	107,054	3,475,325
Public Works	-	-	-	1,998,079
Parks and Recreation	-	-	-	71,159
Public Safety:				-
Police	-	-	-	361,218
Fire	-	-	-	502,481
Library	-	-	-	270,817
Capital outlay	-	-	-	22,419,546
Debt service				
Principal payments	-	-	-	4,205,000
Interest and fiscal fees	-	-	-	3,272,227
Bond cost expense	-	-	-	13,637
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>107,054</b>	<b>36,589,489</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,618</b>	<b>62,799</b>	<b>59,333</b>	<b>(24,479,834)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	15,551,274
Transfers (out)	(1,618)	(37,605)	-	(1,054,296)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,618)</b>	<b>(37,605)</b>	<b>-</b>	<b>14,496,978</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>25,194</b>	<b>59,333</b>	<b>(9,982,856)</b>
<b>Fund balances at the beginning of period</b>	<b>38,244</b>	<b>876,499</b>	<b>3,087,383</b>	<b>74,976,343</b>
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 38,244</b>	<b>\$ 901,693</b>	<b>\$ 3,146,716</b>	<b>\$ 64,993,487</b>

**CITY OF SANTA CLARA  
SPECIAL REVENUE MAINTENANCE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Charges for services	\$ 678,579	\$ 509,846	\$ (168,733)
Interest and rents	9,588	43,617	34,029
Total Revenues	<u>688,167</u>	<u>553,463</u>	<u>(134,704)</u>
<b>EXPENDITURES</b>			
Current:			
Public works			
Salary & benefits	83,414	88,859	(5,445)
Material, service & supplies	1,241,777	1,233,239	8,538
Internal service fund charges	52,746	52,535	211
Total Public Works	<u>1,377,937</u>	<u>1,374,633</u>	<u>3,304</u>
Total Expenditures	<u>1,377,937</u>	<u>1,374,633</u>	<u>3,304</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(689,770)</u>	<u>(821,170)</u>	<u>(131,400)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	722,111	722,111	-
Total Other Financing Sources (Uses)	<u>722,111</u>	<u>722,111</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	32,341	(99,059)	<u>\$ (131,400)</u>
<b>ADJUSTMENTS TO BUDGETARY BASIS:</b>			
Expenditures of prior year encumbrances recognized on the GAAP basis		(3,502)	
Current year encumbrances recognized on the budgetary basis		45	
Net change in accrued liabilities recognized on the GAAP basis		(21,365)	
Fund balance - July 1	<u>511,321</u>	<u>511,321</u>	
Fund balance - June 30	<u>\$ 543,662</u>	<u>\$ 387,440</u>	

## INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund are eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

### AUTOMOTIVE SERVICES

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

### TECHNICAL EQUIPMENT SERVICES

This fund accounts for the maintenance and replacement of communication and computer equipment used by City departments. The source of revenue for this fund is rental fees charged to the various departments.

### SPECIAL LIABILITY INSURANCE CLAIMS

This fund was established to account for the cost of claims and administrative costs for the City's self-insured general liability program.

### WORKER' COMENSATION INSUREANCE CLAIMS

This fund is used to account for the cost of claims for service connected with injuries and illnesses sustained by members of the City's work force.



**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET ASSETS  
JUNE 30, 2006**

	<b>Automotive Services</b>	<b>Technical Equipment Services</b>	<b>Special Liability Insurance Claims</b>	<b>Workers' Compensation Insurance Claims</b>	<b>TOTAL</b>
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments	\$6,648,233	\$ 70,605	\$5,088,631	\$ 2,358,343	\$ 14,165,812
Investments with fiscal agent	-	-	19,948,861	-	19,948,861
Receivables (net of allowance for uncollectibles):					
Accounts	124,943	-	-	308,348	433,291
Interest	-	-	10,394	-	10,394
Due from other funds	95,879	80,605	-	-	176,484
Materials, supplies and prepaids	327,556	-	-	-	327,556
Total current assets	7,196,611	151,210	25,047,886	2,666,691	35,062,398
Capital assets:					
Equipment	16,865,908	2,617,563	-	-	19,483,471
Accumulated depreciation	13,056,557	2,026,105	-	-	15,082,662
	3,809,351	591,458	-	-	4,400,809
Total assets	11,005,962	742,668	25,047,886	2,666,691	39,463,207
<b>LIABILITIES</b>					
Current liabilities:					
Accrued liabilities	421,576	13,608	549,004	13,474,219	14,458,407
Accrued compensated absences	11,818	5,161	-	-	16,979
Due to other funds	3,135,134	271,329	-	-	3,406,463
Total current liabilities	3,568,528	290,098	549,004	13,474,219	17,881,849
Long-term Comp Absences	81,206	35,459	-	-	116,665
Long-term Obligations	-	-	20,000,000	-	20,000,000
Total liabilities	3,649,734	325,557	20,549,004	13,474,219	37,998,514
<b>NET ASSETS</b>					
Invested in capital assets	3,809,351	591,458	-	-	4,400,809
Restricted for contractual obligations	1,254,875	-	-	-	1,254,875
Unreserved	2,292,002	(174,347)	4,498,882	(10,807,528)	(4,190,991)
Total Net Assets	\$7,356,228	\$ 417,111	\$4,498,882	\$ (10,807,528)	\$ 1,464,693

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Automotive Services</u>	<u>Technical Equipment Services</u>	<u>Special Liability Insurance Claims</u>	<u>Workers' Compensation Insurance Claims</u>	<u>TOTAL</u>
Operating revenues:					
Charges for services	\$ 4,530,559	\$ 609,015	\$ 1,821,531	\$ 1,573,024	\$ 8,534,129
Insurance refunds and other	-	-	2,279	116,728	119,007
Total operating revenues	<u>4,530,559</u>	<u>609,015</u>	<u>1,823,810</u>	<u>1,689,752</u>	<u>8,653,136</u>
Operating expenses:					
Salaries and benefits	1,502,259	453,181	-	-	1,955,440
Materials, services and supplies	2,087,428	118,821	-	-	2,206,249
General and administrative	-	-	971,793	7,542,740	8,514,533
Depreciation and amortization	<u>1,285,843</u>	<u>122,899</u>	<u>-</u>	<u>-</u>	<u>1,408,742</u>
Total operating expenses	<u>4,875,530</u>	<u>694,901</u>	<u>971,793</u>	<u>7,542,740</u>	<u>14,084,964</u>
Operating income (loss)	<u>(344,971)</u>	<u>(85,886)</u>	<u>852,017</u>	<u>(5,852,988)</u>	<u>(5,431,828)</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	626,686	-	626,686
Other revenue	144,013	-	-	-	144,013
Gain (loss) on retirement of assets	(49,539)	(815)	-	-	(50,354)
Interest expense	-	-	(604,725)	-	(604,725)
Total nonoperating revenues	<u>94,474</u>	<u>(815)</u>	<u>21,961</u>	<u>-</u>	<u>115,620</u>
Income (loss) before transfers	<u>(250,497)</u>	<u>(86,701)</u>	<u>873,978</u>	<u>(5,852,988)</u>	<u>(5,316,208)</u>
Transfers in				3,080,000	3,080,000
Transfers out	<u>(40,993)</u>	<u>(76,504)</u>	<u>-</u>	<u>-</u>	<u>(117,497)</u>
Change in net assets	<u>(291,490)</u>	<u>(163,205)</u>	<u>873,978</u>	<u>(2,772,988)</u>	<u>(2,353,705)</u>
Total net assets-beginning	<u>7,647,718</u>	<u>580,316</u>	<u>3,624,904</u>	<u>(8,034,540)</u>	<u>3,818,398</u>
Total net assets-ending	<u>\$ 7,356,228</u>	<u>\$ 417,111</u>	<u>\$ 4,498,882</u>	<u>\$ (10,807,528)</u>	<u>\$ 1,464,693</u>

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Automotive Services</b>	<b>Technical Equipment Services</b>	<b>Special Liability Insurance Claims</b>	<b>Workers' Compensation Insurance Claims</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 4,536,934	\$ 609,015	\$ 1,821,531	\$ 1,512,804	\$ 8,480,284
Payments to suppliers	(1,654,857)	(139,162)	-	-	(1,794,019)
Payments to employees	(1,516,890)	(442,493)	-	-	(1,959,383)
Internal activity - payments to other funds	(99,712)	16,201	-	-	(83,511)
Claims paid	-	-	(772,266)	(3,385,819)	(4,158,085)
Other receipts (payments)	144,012	-	-	-	144,012
 Net cash provided by operating activities	 1,409,487	 43,561	 1,049,265	 (1,873,015)	 629,298
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Increase (decrease) in due from other funds	(1,100)	(295)	-	-	(1,395)
(Increase) decrease in due to other funds	(208,171)	18,825	-	-	(189,346)
Transfers (in)	-	-	-	3,080,000	3,080,000
Transfers (out)	(40,993)	(76,504)	-	-	(117,497)
 Cash Flows from Noncapital Financing Activities	 (250,264)	 (57,974)	 -	 3,080,000	 2,771,762
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets, net	(694,087)	-	-	-	(694,087)
Interest paid on capital debt	-	-	(604,725)	-	(604,725)
 Cash Flows from Capital and Related Financing Activities	 (694,087)	 -	 (604,725)	 -	 (1,298,812)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	-	-	626,586	-	626,586
Deposits made with fiscal agent	-	-	(26,585)	-	(26,585)
 Cash Flows from Investing Activities	 -	 -	 600,001	 -	 600,001
 Net increase (decrease) in cash and cash equivalents	 465,136	 (14,413)	 1,044,541	 1,206,985	 2,702,249
Cash and investments at beginning of period	6,183,097	85,018	4,044,090	1,151,358	11,463,563
Cash and investments at end of period	<u>\$ 6,648,233</u>	<u>\$ 70,605</u>	<u>\$ 5,088,631</u>	<u>\$ 2,358,343</u>	<u>\$ 14,165,812</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (344,971)	\$ (85,886)	\$ 852,017	\$ (5,852,988)	\$ (5,431,828)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,285,843	122,899	-	-	1,408,742
Change in assets and liabilities:					
Receivables, net	6,374	-	-	(60,220)	(53,846)
Inventory	(17,181)	-	-	-	(17,181)
Accrued liabilities	350,040	(4,140)	197,248	4,040,193	4,583,341
Compensated absences	(14,631)	10,688	-	-	(3,943)
Other receipts	144,013	-	-	-	144,013
 Net cash provided by operating activities	 <u>\$ 1,409,487</u>	 <u>\$ 43,561</u>	 <u>\$ 1,049,265</u>	 <u>\$ (1,873,015)</u>	 <u>\$ 629,298</u>

<b>FIDUCIARY FUNDS – AGENCY FUNDS</b>
---------------------------------------

Agency Funds, the only fiduciary funds the City has, are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as an agent for individuals, governmental entities, and non-public organizations. These funds include the following:

#### **EMPLOYEE BENEFIT AND LIABILITY CLEARING**

This fund is used to account for monies collected and disbursed related to employee and retiree health, dental and other fringe benefits.

#### **SPECIAL ASSESSMENTS**

This fund accounts for monies collected and disbursed from special assessment districts where the City is not obligated for the outstanding debt payments.

#### **DEPOSITS**

This fund accounts for various deposits including leases, subpoena and utility deposits.

**CITY OF SANTA CLARA  
AGENCY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

	Employee Benefit & Liability Clearing	Special Assessments	Deposit	Total
<b>ASSETS</b>				
Pooled cash and investments	\$ 7,128,902	\$ 3,072,468	\$ 6,228,289	\$ 16,429,659
Cash and investments with fiscal agents	-	210,582	-	210,582
Total Assets	<u>\$ 7,128,902</u>	<u>\$ 3,283,050</u>	<u>\$ 6,228,289</u>	<u>\$ 16,640,241</u>
<b>LIABILITIES</b>				
Due to bondholders	\$ -	\$ 3,283,050	\$ -	\$ 3,283,050
Accrued liabilities	7,128,902	-	-	7,128,902
Refundable deposits	-	-	6,228,289	6,228,289
Total Liabilities	<u>\$ 7,128,902</u>	<u>\$ 3,283,050</u>	<u>\$ 6,228,289</u>	<u>\$ 16,640,241</u>

**CITY OF SANTA CLARA  
AGENCY FUNDS  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
<u>Employee Benefit and Liability Clearing Fund</u>				
Pooled cash and investments	<u>\$ 1,207,537</u>	<u>\$ 131,318,649</u>	<u>\$ 125,397,284</u>	<u>\$ 7,128,902</u>
Accrued liabilities	<u>\$ 1,207,537</u>	<u>\$ 131,318,649</u>	<u>\$ 125,397,284</u>	<u>\$ 7,128,902</u>
<u>Special Assessments</u>				
Pooled cash and investments	\$ 2,834,201	\$ 1,571,015	\$ 1,332,748	\$ 3,072,468
Cash and investments with fiscal agent	<u>220,582</u>	<u>-</u>	<u>10,000</u>	<u>210,582</u>
Total Assets	<u>\$ 3,054,783</u>	<u>\$ 1,571,015</u>	<u>\$ 1,342,748</u>	<u>\$ 3,283,050</u>
Due to bondholders	<u>\$ 3,054,783</u>	<u>\$ 1,571,015</u>	<u>\$ 1,342,748</u>	<u>\$ 3,283,050</u>
<u>Deposits Fund</u>				
Pooled cash and investments	<u>\$ 5,503,858</u>	<u>\$ 1,867,034</u>	<u>\$ 1,142,603</u>	<u>\$ 6,228,289</u>
Accrued liabilities	\$ -	\$ -	\$ -	\$ -
Refundable deposits	<u>5,503,858</u>	<u>1,867,034</u>	<u>1,142,603</u>	<u>6,228,289</u>
Total liabilities	<u>\$ 5,503,858</u>	<u>\$ 1,867,034</u>	<u>\$ 1,142,603</u>	<u>\$ 6,228,289</u>
<u>Total Agency Funds</u>				
Pooled cash and investments	\$ 9,545,596	\$ 134,756,698	\$ 127,872,635	\$ 16,429,659
Cash and investments with fiscal agent	<u>220,582</u>	<u>-</u>	<u>10,000</u>	<u>210,582</u>
Total Assets	<u>\$ 9,766,178</u>	<u>\$ 134,756,698</u>	<u>\$ 127,882,635</u>	<u>\$ 16,640,241</u>
Due to bondholders	\$ 3,054,783	\$ 1,571,015	\$ 1,342,748	\$ 3,283,050
Accrued liabilities	1,207,537	131,318,649	125,397,284	7,128,902
Refundable deposits	<u>5,503,858</u>	<u>1,867,034</u>	<u>1,142,603</u>	<u>6,228,289</u>
Total Liabilities	<u>\$ 9,766,178</u>	<u>\$ 134,756,698</u>	<u>\$ 127,882,635</u>	<u>\$ 16,640,241</u>

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## ***Statistical Information***



CITY OF SANTA CLARA					
Table 1					
Net Assets by Component Last Five Fiscal Years (Accrual Basis of Accounting)					
	2006	2005	2004	2003	2002
<b>Governmental Activities:</b>					
Investment in Capital Assets, Net of Related Debt	\$ 442,140,801	407,174,520	397,363,685	339,694,210	298,344,747
Restricted	165,683,634	167,199,676	157,189,122	158,375,186	161,280,175
Unrestricted	79,583,159	116,132,293	137,383,988	185,081,901	186,951,705
<b>Total Governmental Activities Net Assets:</b>	<b>\$ 687,407,594</b>	<b>690,506,489</b>	<b>691,936,795</b>	<b>683,151,297</b>	<b>646,576,627</b>
<b>Business - Type Activities:</b>					
Investment in Capital, Net of Related Debt	\$ 309,902,005	311,766,823	328,025,366	343,790,557	201,959,081
Restricted	1,413,275	3,741,617	42,203,800	4,132,707	6,816,289
Unrestricted	520,700,801	548,215,769	466,854,855	486,308,578	527,053,279
<b>Total Business - Type Activities Net Assets</b>	<b>\$ 832,016,081</b>	<b>863,724,209</b>	<b>837,084,021</b>	<b>834,231,842</b>	<b>735,828,649</b>
<b>Primary Government</b>					
Investment in Capital, Net of Related Debt	\$ 752,042,806	718,941,343	725,389,051	683,484,767	500,303,828
Restricted	167,096,909	170,941,293	199,392,922	162,507,893	168,096,464
Unrestricted	600,283,960	664,348,062	604,238,843	671,390,479	714,004,984
<b>Total Primary Government Net Assets</b>	<b>\$ 1,519,423,675</b>	<b>1,554,230,698</b>	<b>1,529,020,816</b>	<b>1,517,383,139</b>	<b>1,382,405,276</b>

Source: Finance Department, City of Santa Clara.

The City implemented the new reporting model in fiscal year 2001-2002.

Until 10 years of data are available, only the available years will be presented.

# CITY OF SANTA CLARA

Table 2

## Changes in Net Assets Last Five Fiscal Years (Accrual Basis of Accounting)

	2006	2005	2004	2003	2002
<b>Expenses:</b>					
<b>Governmental Activities:</b>					
General Administration	\$ 11,851,199	17,332,407	10,050,399	8,865,667	8,335,828
City Clerk	565,663	691,347	552,482	558,285	473,606
City Attorney	1,158,769	1,078,661	1,249,910	1,251,938	1,152,407
Human Resources	1,722,171	1,729,961	1,656,688	1,736,843	1,719,404
Finance	6,284,392	6,172,398	6,109,339	7,270,797	8,140,837
Public Works	27,420,150	30,751,849	25,124,182	27,025,762	24,294,913
Parks and Recreation	11,925,159	10,805,741	10,735,416	11,043,188	10,386,544
Public Safety:					
Police	39,217,957	32,006,734	31,182,382	30,154,056	27,412,925
Fire	31,667,929	29,062,758	28,384,428	28,162,361	26,432,373
Communications	**	3,996,641	4,076,073	4,110,007	3,704,372
Planning & Inspection	5,698,805	5,471,468	5,196,893	4,959,707	5,149,751
Library	7,959,623	7,897,939	5,984,791	6,014,897	5,752,995
Interest on long term debt	12,727,169	13,276,817	14,529,249	13,861,613	15,398,284
<b>Total Governmental Activities Expenses</b>	<b>158,198,986</b>	<b>160,274,721</b>	<b>144,832,232</b>	<b>145,015,121</b>	<b>138,354,239</b>
<b>Business-Type Activities:</b>					
Utilities:					
Electric -					
Retail	250,475,704	194,381,695	202,611,209	204,745,525	220,655,153
Wholesale	249,500,523	165,790,104	207,975,046	227,283,768	395,336,345
Water	19,582,247	18,756,529	18,556,108	16,863,971	15,178,422
Sewer	15,123,639	9,046,568	11,901,210	12,026,831	20,922,913
Water Recycling	947,249	853,553	743,182	725,489	462,533
Solid Waste	15,588,989	14,343,150	14,562,457	14,424,440	15,163,901
Cemetery	769,895	768,733	788,149	814,289	748,310
Sports and Open Space Authority	36,569	26,066	20,182	20,946	21,413
Santa Clara Golf and Tennis Club	2,696,981	2,528,236	2,591,129	2,566,773	2,630,480
Santa Clara Convention Center	6,162,633	5,980,692	5,752,101	5,701,966	5,030,392
<b>Total Business-Type Activities Expenses</b>	<b>560,884,429</b>	<b>412,475,326</b>	<b>465,500,773</b>	<b>485,173,998</b>	<b>676,149,862</b>
<b>Total Primary Government Expenses</b>	<b>\$ 719,083,415</b>	<b>572,750,047</b>	<b>610,333,005</b>	<b>630,189,119</b>	<b>814,504,101</b>

(Continued)

Source: Finance Office, City of Santa Clara.

The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

\*\* Now included in Police

CITY OF SANTA CLARA					
Changes in Net Assets Last Five Fiscal Years (Accrual Basis of Accounting) (continued)					
	2006	2005	2004	2003	2002
<b>Program Revenues:</b>					
<b>Governmental Activities:</b>					
Charges for Services	\$ 22,741,417	21,725,861	9,384,799	9,903,992	10,822,367
Operating Grants and Contributions	5,417,731	5,464,693	4,601,029	3,849,282	5,809,808
Capital Gains and Contributions	3,761,417	4,530,462	7,613,405	5,800,115	3,982,809
<b>Total Governmental Activities Program Revenues</b>	<b>31,920,565</b>	<b>31,721,216</b>	<b>21,599,233</b>	<b>19,553,389</b>	<b>20,614,984</b>
<b>Business-Type Activities:</b>					
<b>Utilities:</b>					
Electric -					
Retail	211,110,696	193,491,975	188,228,918	188,221,909	194,243,636
Wholesale	255,187,805	170,165,379	219,798,524	227,453,513	424,379,460
Water	19,645,549	18,884,505	18,569,432	16,661,080	15,301,969
Sewer	12,948,083	12,065,191	12,016,931	12,532,159	11,919,568
Water Recycling	996,165	851,659	896,735	598,227	515,991
Solid Waste	14,888,405	14,404,704	13,526,742	12,296,348	11,794,870
Cemetery	510,587	525,605	469,805	468,024	456,695
Sports and Open Space Authority	1,287,373	1,316,814	1,435,655	1,671,741	2,589,117
Santa Clara Golf and Tennis Club	3,019,792	2,913,108	2,842,406	3,082,653	3,197,585
Santa Clara Convention Center	4,032,795	3,477,697	3,423,700	2,813,148	3,731,414
<b>Total Business-Type Activities Program Revenues</b>	<b>523,397,250</b>	<b>418,096,637</b>	<b>461,208,648</b>	<b>465,798,800</b>	<b>668,110,005</b>
<b>Total Primary Government Program Revenue</b>	<b>555,317,815</b>	<b>449,817,853</b>	<b>482,808,081</b>	<b>485,352,189</b>	<b>688,724,989</b>
<b>Net (Expense) Revenue:</b>					
Governmental Activities	(126,278,421)	(128,553,505)	(123,232,999)	(125,461,732)	(117,738,255)
Business-Type Activities	(37,047,805)	7,675,558	(3,349,588)	(12,982,945)	(6,496,268)
<b>Total Primary Government Net (Expense) Revenue</b>	<b>(163,326,026)</b>	<b>(120,877,947)</b>	<b>(126,582,587)</b>	<b>(138,444,677)</b>	<b>(124,235,523)</b>
<b>General Revenue and other changes in Net Assets</b>					
<b>Taxes:</b>					
Sales	38,066,053	35,685,669	35,976,144	33,814,782	40,104,088
Ad Valorem Property	39,387,921	39,927,854	40,868,370	45,334,874	44,885,491
Transient occupancy	9,601,273	7,863,075	7,159,622	7,889,562	
Other	4,855,788	6,173,099	5,852,919	4,953,046	15,584,313
<b>Internal Governmental, unrestricted:</b>					
Motor Vehicle In-lieu	667,982	2,488,850	5,267,429	6,032,645	5,840,190
Contribution in-lieu of taxes	12,860,316	11,992,617	11,905,276	11,865,239	11,817,084
Investment earnings	31,543,757	33,786,089	38,567,659	53,860,802	66,071,033
Net (decrease) in the fair value of investments	(16,595,991)	(1,289,582)	(25,379,865)		
Rents and Royalties	5,001,248	5,852,464	13,733,736	12,094,577	10,099,851
Other	3,802,358	3,292,072	4,436,474	272,194	4,039,383
<b>Total Primary Government General Revenue and Transfers</b>	<b>129,190,705</b>	<b>145,782,207</b>	<b>138,387,764</b>	<b>176,117,721</b>	<b>198,441,443</b>
<b>Change in Net Assets - Total Primary Government</b>	<b>(34,135,321)</b>	<b>24,904,260</b>	<b>11,805,177</b>	<b>37,673,044</b>	<b>74,205,920</b>
<b>Net Assets - Beginning of Year (Restated)</b>	<b>1,553,558,996</b>	<b>1,528,654,736</b>	<b>1,516,849,559</b>	<b>1,382,182,923</b>	<b>1,307,977,003</b>
<b>Net Assets - End of Year - Total Primary Government</b>	<b>\$ 1,519,423,675</b>	<b>1,553,558,996</b>	<b>1,528,654,736</b>	<b>1,516,849,559</b>	<b>1,382,182,923</b>

Source: Finance Department, City of Santa Clara.

The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA					
Fund Balances - Governmental Funds					
Last Five Fiscal Years					
(Modified Accrual Basis of Accounting)					
	2006	2005	2004	2003	2002
General Fund:					
Reserved	\$ 86,737,079	\$ 96,628,070	\$ 90,109,199	\$ 106,105,730	\$ 109,203,609
Unreserved	309,202,193	322,777,134	341,544,098	369,731,714	318,093,669
Total	\$ 395,939,272	419,405,204	431,653,297	475,837,444	427,297,278
Other Governmental Funds:					
Reserved	\$ 86,737,079	96,628,070	90,109,199	106,105,730	109,203,609
Unreserved, Reported in:					
Capital Projects	36,955,865	35,017,319	55,418,744	69,100,219	49,439,932
Debt Service	-	-	-	-	-
Redevelopment activities	116,547,017	119,742,140	115,543,968	110,297,679	61,417,543
Other purposes	155,699,311	168,017,675	170,581,386	190,333,816	207,236,194
Total Other Governmental Funds	\$ 395,939,272	419,405,204	431,653,297	475,837,444	427,297,278

Source: Finance Department, City of Santa Clara.

The City of Santa Clara has elected to show only five years of data for this schedule.

## CITY OF SANTA CLARA

Table 4

**Changes in Fund Balances - Governmental Funds  
Last Five Fiscal Years  
(Modified Accrual Basis of Accounting)**

	2006	2005	2004	2003	2002
<b>REVENUES:</b>					
Taxes:					
Sales	\$ 38,066,053	35,695,669	35,976,144	33,814,782	40,104,098
Ad Valorem Property	39,387,921	39,927,854	40,868,370	45,334,874	44,885,491
Transient occupancy	9,601,273	7,863,075	7,159,622	7,889,562	-
Other	5,715,788	5,005,109	5,069,469	4,183,895	16,308,252
Licences, permits, fees and penalties	4,946,382	5,229,337	4,796,216	4,608,120	4,454,427
Internal Governmental	8,202,166	8,749,645	12,947,272	11,181,318	15,012,069
Charges for Services	19,880,748	15,329,523	14,861,744	12,282,871	13,912,553
Contribution in-lieu of taxes	12,860,916	11,992,617	11,905,276	11,865,239	11,817,084
Interest and Rents	28,253,144	30,393,574	31,286,766	36,939,290	40,121,464
Net (decrease) in the fair value of investments	(5,472,830)	(483,875)	(10,088,915)	**	**
Other	1,990,066	4,209,414	5,429,438	2,984,160	3,079,432
<b>TOTAL REVENUES</b>	<b>163,431,027</b>	<b>163,905,942</b>	<b>160,151,402</b>	<b>171,084,081</b>	<b>189,694,870</b>
<b>EXPENDITURES</b>					
Current:					
General Administration	27,084,255	29,631,450	23,230,221	23,277,138	23,607,193
City Clerk	553,647	675,924	540,668	532,453	449,185
City Attorney	1,136,990	1,071,330	1,280,351	1,234,403	1,125,548
Human Resources	1,724,096	1,722,447	1,664,251	1,721,970	1,689,638
Finance	6,206,019	6,034,305	6,023,460	7,063,409	7,939,038
Public Works	15,503,087	15,766,983	14,669,703	14,761,858	14,510,793
Parks and Recreation	10,685,523	10,248,935	10,657,497	10,808,523	10,063,970
Public Safety:					
Police	34,836,856	30,775,802	30,197,408	28,832,836	26,154,634
Fire	29,112,295	27,946,604	27,710,733	26,995,035	25,253,546
Communications		3,846,966	4,002,016	3,995,253	3,584,514
Planning & Inspection	5,410,206	5,343,849	5,200,109	4,859,927	5,021,138
Library	6,742,488	6,890,758	5,882,739	5,853,259	5,618,356
Capital Outlay	29,353,861	19,242,150	50,434,571	48,558,738	28,920,402
Debt Service:					
Principal	5,917,728	13,351,286	12,148,071	11,422,892	9,795,367
Interest	12,181,734	12,984,408	14,125,018	13,103,350	10,944,114
<b>TOTAL EXPENDITURES</b>	<b>186,448,785</b>	<b>185,532,597</b>	<b>207,766,818</b>	<b>203,021,044</b>	<b>174,677,336</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER (UNDER) EXPENDITURES</b>	<b>(23,017,758)</b>	<b>(21,626,655)</b>	<b>(47,615,414)</b>	<b>(31,936,963)</b>	<b>15,017,534</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term Debt Issuance	-	-	-	102,490,000	33,910,000
Bond Premium	-	-	-	784,206	1,442,725
Payment to Bond Escrow Agent	-	-	-	(32,540,000)	(36,399,083)
Sale of Capital Assets	1,701,124	407,784	50,704	19,151	1,061
Transfers In	37,055,042	28,728,161	25,819,382	37,061,026	49,722,425
Transfers Out	(35,554,230)	(28,099,200)	(22,484,611)	(35,145,838)	(48,578,836)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>3,201,936</b>	<b>1,036,745</b>	<b>3,385,475</b>	<b>72,668,544</b>	<b>(1,841,688)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (19,815,822)</b>	<b>(20,589,910)</b>	<b>(44,229,939)</b>	<b>40,731,581</b>	<b>13,175,846</b>
<b>DEBT SERVICE AS A PERCENTAGE OF</b>					
<b>NON-CAPITAL EXPENDITURES</b>	<b>10%</b>	<b>14%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>

Note: \* Included in Taxes - Other

\*\* Included in Interest and Rents

\*\*\* Included in Police starting in fiscal year 2005-06.

Source: Finance Department, City of Santa Clara.

The City of Santa Clara has elected to show only five years of data for this schedule.

Table 5

**CITY OF SANTA CLARA**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year	Net Local Secured Roll	SBE (2)	Net Unsecured Roll	Net Assessed Valuation (1)	Estimated Actual Value	Ratio of Assessed Value To Estimated Value	% of Growth of Assessed Valuation	Total Direct Tax Rate
1996-97	\$8,265,307	3,102	\$2,492,331	\$10,760,740	\$10,871,113	98.98%	9.55%	1.0440%
1997-98	8,949,286	3,327	3,084,904	12,037,517	12,424,530	96.89%	11.87%	1.0852%
1998-99	10,088,177	3,425	3,046,790	13,138,392	13,250,246	99.16%	9.15%	1.0920%
1999-00	10,879,040	2,632	3,326,278	14,207,950	14,320,454	99.21%	8.14%	1.0629%
2000-01	11,822,175	2,497	3,463,886	15,288,558	15,400,547	99.27%	7.61%	1.0605%
2001-02	13,744,409	2,554	4,477,383	18,224,346	18,335,454	99.39%	19.20%	1.0792%
2002-03	15,110,520	2,861	4,207,133	19,320,514	19,429,970	99.44%	6.01%	1.0712%
2003-04	15,283,368	2,803	3,639,274	18,925,445	19,033,631	99.43%	-2.04%	1.0738%
2004-05	14,978,836	2,471	2,991,292	17,972,599	18,081,181	99.40%	-5.03%	1.0824%
2005-06	15,663,135	1,756	3,037,319	18,702,210	18,813,195	99.41%	4.06%	1.1467%

Notes: (1) Full cash value.

(2) Beginning in fiscal 1989, Chapter 921 of the Statutes of 1987 requires the establishment of a single County-wide tax rate area for the assignment of the assessed value of certain types of State-assessed utility property.

Source: Santa Clara County, Department of Finance

# CITY OF SANTA CLARA

Table 6

## Property Tax Rates (Per \$100 assessed valuation) Direct and Overlapping Governments Last Ten Fiscal Years

Fiscal Year	Santa Clara County	School Districts	Special Districts	Total
1996-97	1.0338%	-	0.0102%	1.0440%
1997-98	1.0341%	0.0413%	0.0098%	1.0852%
1998-99	1.0388%	0.0450%	0.0082%	1.0920%
1999-00	1.0319%	0.0225%	0.0085%	1.0629%
2000-01	1.0356%	0.0174%	0.0075%	1.0605%
2001-02	1.0364%	0.0366%	0.0062%	1.0792%
2002-03	1.0388%	0.0252%	0.0072%	1.0712%
2003-04	1.0388%	0.0263%	0.0087%	1.0738%
2004-05	1.0388%	0.0344%	0.0092%	1.0824%
2005-06	1.0388%	0.1001%	0.0078%	1.1467%

Tax rate limit: A state constitutional amendment (Proposition 13) commencing with fiscal 1979 provided that the tax rate was limited to 1% of full cash value, levied only by the County and shared with all other jurisdictions. All jurisdictions may levy a tax rate for voter approved debt.

Due date for current taxes: First installment - November 1; second installment - February 1.

Penalties for delinquency: 10% and \$5.00 cost after date taxes become delinquent.

Collected by government unit: County of Santa Clara.

Basis upon which collections are distributed: Taxing jurisdictions assessed valuations and tax rates for voter approved debt to taxing jurisdictions, County rate (1% of full cash value) shared by all jurisdictions.

Compensation paid to collecting government unit: \$165,518

Note: Tax rates stated are the rates applicable to the tax rate area 7-000 as typical tax rate area within the City. Rates are based on \$100 assessed valuation.

Source: Santa Clara County, Department of Finance

# CITY OF SANTA CLARA

Table 7

## Principal Property Tax Payers 2005-06 and 2002-03 Comparison for General Fund (In Thousands)

Organization	2005-06		2002-03	
	Revenue in Thousands	Percent of Total	Revenue in Thousands	Percent of Total
Intel Corporation	\$ 1,508	9.16%	\$ 1,409	9.83%
Applied Materials Inc.	499	3.03%	537	3.75%
Sun Microsystems, Inc.	187	1.14%	259	1.81%
Sobrato Development Company	158	0.96%	311	2.17%
Agilent Technologies Inc.			204	1.42%
National Semiconductor Corporation	175	1.06%	195	1.36%
Rivermark Partners LLC			178	1.24%
3Com Corporation	139	0.84%	159	1.11%
Exodus Communications Inc.			147	1.03%
BRE San Tomas LLC			132	0.92%
Nvidia Corporation	114	0.69%		
Mission West Properties, L.P.	114	0.69%		
Ellis Middlefield Business Park, L.P.	104	0.63%		
Silicon Valley California, LLC	99	0.60%		
<b>Top Ten Total</b>	<b>\$ 3,097</b>	<b>18.80%</b>	<b>\$ 3,531</b>	<b>24.64%</b>
 City Total	 <u><u>\$ 16,469</u></u>		 <u><u>\$ 14,333</u></u>	

Source: Santa Clara County Assessor 2005/06 Combined Tax Rolls through HdL Coren & Cone.  
Additional years of historical data are not available



# CITY OF SANTA CLARA

Table 8

## Property Tax Levies and Collections Last Ten Fiscal Years (In Thousands)

<u>Fiscal Year</u>	<u>Gross Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percentage of Current Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Collections</u>
1996-97	\$9,241 (2)	\$9,144 (2)	98.95	2	\$ 9,146
1997-98	10,669	10,519	98.59	122	10,641
1998-99	11,713	11,543	98.55	124	11,667
1999-00	12,855	12,744	99.14	85	12,829
2000-01	13,733	13,523	98.47	181	13,704
2001-02	15,848	15,795	99.67	14	15,809
2002-03	16,884	16,763	99.28	22	16,785
2003-04	16,182	16,106	99.53	-3	16,103
2004-05	15,892	15,841	99.68	0	15,841
2005-06	16,624	16,565	99.65	0	16,565

Notes:

- (1) Net State mandated shift to schools of approximately \$648 thousand.
- (2) Net State mandated shift to schools of approximately \$700 thousand.

Sources: City of Santa Clara  
Santa Clara County, Department of Finance

**CITY OF SANTA CLARA**  
**Ratios of Outstanding Debt by Type**  
**Last Four Fiscal Years**  
**(In Thousands)**

**Table 9**

<b>Long-Term Indebtedness</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Governmental Activities:</b>				
Public Financing Authority				
Certificates of Participation	\$ 63,345	\$ 66,725	\$ 70,010	\$ 72,895
Insurance Funding Bonds	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Assessment Bonds	\$ 5,875	\$ 6,700	\$ 7,490	\$ 8,240
<b>Redevelopment Agency:</b>				
Tax Allocation Bonds	\$ 140,225	\$ 141,938	\$ 151,214	\$ 159,727
<b>Business Activities:</b>				
Revenue Bonds	\$ 269,883	\$ 275,360	\$ 280,609	\$ 132,646
<b>Compensated Absences</b>	\$ 14,595	\$ 13,759	\$ 13,366	\$ 14,055
 <b>Total Primary Government</b>	 <b>\$ 513,923</b>	 <b>\$ 524,482</b>	 <b>\$ 542,689</b>	 <b>\$ 407,563</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Population	110,771	109,106	107,200	105,831
Debt per Capita	\$ 4,640	\$ 4,807	\$ 5,062	\$ 3,851
Total Personal Income (\$000)	N/A	\$ 2,765,258	\$ 2,720,598	\$ 2,677,383
Debt / Income Ratio	N/A	0.19	0.20	0.15

Sources: Note 11, Note 2; Statement of Net Assets; California Department of Finance; and Survey of Buying Power

**CITY OF SANTA CLARA**  
**Population and Assessed Valuation**  
**Last Ten Fiscal Years**  
**(In Thousands)**

**Table 10**

<b>Fiscal Year</b>	<b>Population (Jan 1)</b>	<b>Assessed Value (1)</b>
1997	100.0	\$10,760,740
1998	101.9	12,037,517
1999	102.7	13,250,246
2000	102.9	14,320,454
2001	104.6	15,400,547
2002	104.3	18,335,454
2003	105.8	19,429,970
2004	107.2	19,033,631
2005	109.1	18,081,181
2006	110.8	18,813,195

Note: (1) Assessed values are estimated actual value.

Sources: State of California, Department of Finance  
Santa Clara County, Department of Finance  
City of Santa Clara

# CITY OF SANTA CLARA

Table 11

## Computation of Direct and Overlapping Bonded Debt June 30, 2006

Description	% Applicable	Debt
<b><u>Direct Debt:</u></b>		
Certificates of Participation Series 2002 A	100	\$ 23,850,000
Certificates of Participation Series 2002 B	100	26,045,000
Certificates of Participation Series 1997	100	13,450,000
City of Santa Clara 1915 Act Bonds	100	5,875,000
<b>Total Gross Direct Debt</b>		<b>69,220,000</b>
<b><u>Overlapping Debt:</u></b>		
Santa Clara County General Fund Obligations	7.801	71,815,616
Santa Clara Valley Water District Benefit Assessment District	7.801	14,342,139
Santa Clara County Board of Education Certificates of Participation	7.801	1,339,342
Foothill DeAnza Community College District	1.317	3,164,224
San Jose Community College District	0.035	58,143
West Valley-Mission Community College District	27.623	27,623,000
West Valley-Mission Community College District General Fund Obligations	27.623	9,919,419
Fremont Union High School District	2.804	3,886,064
Campbell Union High School District	1.645	1,517,348
Campbell Union School District	3.74	3,445,848
Cupertino Union School District Certificates of Participation	4.658	210,542
San Jose Unified School District	0.102	480,525
Cupertino Union School Districts	4.658	5,778,017
Santa Clara Unified School District	78.879	154,736,934
San Jose Unified School District Certificates of Participation	0.102	121,558
Foothill DeAnza Community College District Certificates of Participation	1.317	269,195
Santa Clara Unified School District Certificates of Participation	78.879	5,975,084
<b>Total Overlapping Debt</b>		<b>304,682,998</b>
<b>Total Gross Direct and Overlapping Bonded Debt</b>		<b>373,902,998 (1)</b>
<b>TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$ 373,902,998</b>
2005/2006 Assessed Value \$16,867,528,172 (after deducting \$ 1,945,666,408 redevelopment incremental value).		
<b><u>Ratios to Assessed Valuation:</u></b>		
Direct Debt \$(69,220,000)	0.410%	
Total Gross Debt	2.217%	
Total Net Debt	2.217%	
State School Building Aid Repayable As of 6/30/06:	\$ -	

**Note (1):** Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds.

**Source:** California Municipal Statistics, Inc.

Table 12

**City of Santa Clara  
Legal Debt Margin Information  
Last Ten Years**  
(In Thousands)

<b>Fiscal Year</b>	<b>Assessed Valuation</b>	<b>Debt Limit 15% of Assessed Valuation*</b>	<b>Debt Applicable to Limit</b>	<b>Legal Debt Margin</b>
1997-98	\$12,037,517	\$1,805,628	\$76,830	\$1,728,798
1998-99	13,138,392	1,970,759	20,000	1,950,759
1999-00	14,207,950	2,131,193	20,000	2,111,193
2000-01	15,288,558	2,293,284	10,096	2,273,284
2001-02	18,224,346	2,733,652	20,000	2,723,556
2002-03	19,320,514	2,898,077	20,000	2,878,077
2003-04	18,925,445	2,838,817	20,000	2,818,817
2004-05	17,972,599	2,695,890	20,000	2,675,890
2005-06	18,702,210	2,805,332	20,000	2,785,332

Notes: \* Section 1309 of the City Charter of the City states: "Bonded Debt Limit.  
The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation of property within the City, exclusive of revenue bonds or any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned utilities, for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the State Constitution and this Charter."

Sources: Santa Clara County, Department of Finance  
City of Santa Clara

**CITY OF SANTA CLARA**  
**Pledged Revenue Coverage**  
**Electric Revenue Bond**  
**Fiscal Years 1997 Through 2006**  
**(In Thousands)**

**Table 13**

Fiscal Year Ending June 30	Gross Revenue (1)	Direct Expense (2)	Rate Stabilization Fund	Net Revenue Available For Debt Service	Debt Service		Letter of Credit Fees	Total	Coverage (3)
					Principal	Interest			
1997	\$188,885	\$153,579	\$0	\$35,306	\$5,865	\$8,807	\$421	\$15,093	2.34
1998	197,413	149,429	0	47,984	7,240	8,369	649	16,258	2.95
1999	216,317	141,237	0	75,080	9,460	6,827	464	16,751	4.48
2000	234,024	142,870	0	91,154	9,208	6,684	788	16,680	5.46
2001	413,253	168,113	0	245,140	10,065	6,516	182	16,763	14.62
2002	(4) 258,167	184,865	0	73,302	48,290	4,355	230	52,875	1.39
2003	(5) 218,456	176,274	0	42,182	16,995	5,180	166	22,341	1.89
2004	208,058	174,753	0	33,305	5,160	8,433	261	13,854	2.40
2005	218,849	158,883	0	59,966	5,840	10,389	262	16,491	3.64
2006	(6) 248,008	213,362	0	34,646	11,080	11,216	266	22,562	1.54

**Notes:**

- (1) Gross revenue includes operating and nonoperating revenues less equity in joint ventures plus capitalized interest earnings less interest earnings on collateralized escrow securities.
- (2) Direct expense include operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.
- (3) The required coverage is 1.25
- (4) In fiscal Year 2001-02 Principal includes the cost of retiring the 1998 Taxable Bonds for \$39.72 million.
- (5) In fiscal year 2002-03 Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for \$
- (6) In fiscal year 2005-06 Gross Revenue also includes \$21.5 million fund transfer from Cost Reduction Fund to Enron settlement cost. Direct expense includes Enron's net settlement cost of \$21.5

Source: City of Santa Clara

CITY OF SANTA CLARA							
Demographic and Economic Statistics Last Ten Calendar Years							
Table 14							
Year	Population (1)	Personal Income (2) (\$000)	Per Capita Buying Income (3)	Median Age (3)	Public School Enrollment (4)	County Unemployment Rate (5)	City Unemployment Rate (5)
1997	100,030	\$1,991,697	\$19,911	33.5	14,098	3.0%	2.8%
1998	101,877	2,169,160	21,292	33.7	14,182	3.2%	3.0%
1999	102,682	2,319,073	22,585	34.1	14,338	3.0%	2.8%
2000	102,895	2,482,753	24,129	34.3	14,308	2.0%	1.9%
2001	104,616	2,920,983	27,921	34.5	13,565	4.5%	4.2%
2002	104,306	2,818,661	27,023	34.2	13,321	8.4%	7.9%
2003	105,831	2,677,383	25,282	35.2	13,188	8.2%	7.7%
2004	107,200	2,720,598	26,465	35.7	13,839	6.2%	5.9%
2005	109,106	2,765,258	26,513	35.3	13,317	5.5%	4.8%
2006	110,771	n/a	n/a	n/a	13,366	5.0%	4.3%

**Sources:**

- (1) State of California, Department of Finance (January 1, 2006 estimate).
- (2) Population Times Personal Income or from Survey of Buying Power
- (3) Sales & Marketing Management - Survey of Buying Power or US Census Bureau for San Jose
- (4) Santa Clara Unified School District, Demographic Department (fiscal year).
- (5) California Employment Development Department - Labor Market Analysis (As of June).

**CITY OF SANTA CLARA**  
Principal Private Employers  
June 30, 2006

Table 15

	2006		2005		2004		2003	
Company	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Intel Corporation	5,700	11.2%	8,000	15.6%	8,000	15.7%	8,000	15.6%
National Semiconductor Inc.	5,100	10.0%	2,000	3.9%	2,000	3.9%	2,000	3.9%
Advanced Cardiovascular Systems	4,200	8.3%						
Sun Microsystems, Inc.	3,500	6.9%	2,500	4.9%	3,500	6.9%	3,500	6.8%
Coast Personnel	1,895	3.7%	1,895	3.7%			1,895	3.7%
Nortel Networks	1,500	2.9%	1,500	2.9%	1,500	2.9%		
Kaiser Foundation Hospitals	1,200	2.4%			2,500	4.9%		
Coherent Inc.	1,082	2.1%						
Iseva Inc.	1,000	2.0%						
Guidant Corp.	850	1.7%						
Agilent Technologies			3,000	5.9%	3,000	5.9%	3,000	5.8%
Nvidia Corporation			1,400	2.7%	1,500	2.9%		
Sanmina-SCI Corp.			1,200	2.3%			1,500	2.9%
Siemens Info. Comm. Networks Inc.			1,200	2.3%				
3Com Corporation			1,000	2.0%	1,000	2.0%	1,000	1.9%
Integrated Device Technology					3,000	5.9%	1,000	1.9%
United Defense					800	1.6%		
NEC Electronics							1,200	2.3%
Analog Devices							900	1.8%
<b>Total Top Ten</b>	26,027	51.2%	23,695	46.2%	26,800	52.6%	23,995	46.6%
all others	24,873	48.8%	27,505	53.8%	24,100	47.4%	27,305	53.4%
<b>Total Employment</b>	50,900	100.0%	51,200	100.0%	50,900	100.0%	51,300	100.0%

**Source:** City of Santa Clara  
2003-2006 Northern California Business Directory  
California Employment Development Department



**CITY OF SANTA CLARA**  
**Full-time Budgeted City Employees by Program/Function**

Table 16

	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2002-03</b>
City Council	8.50	8.50	8.50	8.50
City Clerk	4.00	4.00	4.00	4.00
City Attorney	7.00	7.00	7.00	7.00
City Manager	8.00	8.00	8.00	8.00
Information Technology	4.00	4.00	4.00	4.00
Human Resources	15.00	15.00	16.00	16.00
Finance	54.00	55.00	55.00	55.00
Parks & Recreation	84.00	84.00	85.00	86.00
Library	42.75	42.75	43.75	38.75
Planning & Inspection	39.00	39.00	39.00	41.00
Engineering	44.67	44.67	46.00	46.00
Purchasing	9.00	9.00	9.00	9.00
Building Maintenance	13.50	13.50	13.50	13.50
Street	58.00	58.00	59.00	59.00
Automotive Services	19.00	19.00	20.00	20.00
Police	227.00	199.00	199.00	202.00
Fire	179.50	179.50	180.00	180.00
Communications	*	29.00	29.00	29.00
Electric Utility	144.00	144.00	138.00	133.00
Water Utility	45.50	44.50	44.50	44.50
Sewer Utility	13.50	13.50	13.50	13.50
<b>TOTAL</b>	<b>1,019.92</b>	<b>1,020.92</b>	<b>1,021.75</b>	<b>1,017.75</b>

\* Included in Police starting in 2005-06

Source: City of Santa Clara Annual Budget 2006-2007

**CITY OF SANTA CLARA**  
**Operating Indicators by Function/Activity**  
**Last Four Fiscal Years**

**Table 17**

	2006	2005	2004	2003
<b>Culture and Recreation:</b>				
Number of library items circulated	2,657,430	2,625,227	2,188,632	2,347,996
<b>Fire Protection:</b>				
Number of calls answered	6,549	6,065	5,933	6,391
Number of inspections conducted	10,460	10,026	10,290	8,339
<b>Police Protection:</b>				
Number of calls for service	58,021	55,814	36,832	38,891
<b>Electric System:</b>				
Maximum annual demand	461.2 MW	399.7 MW	405 MW	419 MW
Total annual energy	2,764,831 Mwh	2,573,056 Mwh	2,507,000 Mwh	2,415,189 Mwh
<b>Sewer System:</b>				
Number of service connections	25,920	25,897	25,531	23,227
Peak flow (5-day average,WPCP)	140 MGD	109 MGD	109 MGD	119 MGD
Maximum daily capacity of treatment plant (WPCP)	167 MGD	167 MGD	167 MGD	167 MGD
<b>Water System:</b>				
Number of service accounts	25,136	24,905	26,478	24,475
Daily average consumption	21 MG	21 MG	21 MG	21 MG
Maximum daily capacity of plant:				
Potable Water	89 MGD	87 MGD	80 MGD	80 MGD
Recycled Water	15 MGD	15 MGD	15 MGD	15 MGD
Miles of recycled watermain	19	19	19	19

Source: City of Santa Clara

**CITY OF SANTA CLARA**  
**Capital Assets by Function**  
**Last Four Years**  
**June 30**

**Table 18**

	2006	2005	2004	2003
<b>Culture and Recreation:</b>				
Number of community centers	4	4	4	4
Number of parks	31	30	30	28
Park acreage	282	277	277	265
Number of golf courses	1	1	1	1
Number of swimming pools	4	4	4	4
Number of tennis courts	28	27	27	27
Number of lawn bowling greens	1	1	1	1
Number of lighted soccer fields	3	3	3	-
Number of lighted softball fields	7	7	7	7
Number of neighborhood park buildings	8	8	8	8
Number of gymnastic centers	1	1	1	1
Number of skate parks	1	1	1	1
Number of community theaters	1	1	-	-
Number of libraries	2	2	2	2
<b>Cemetery</b>	2	2	2	2
<b>Fire Protection:</b>				
Number of stations	10	10	10	10
<b>Police Protection:</b>				
Number of stations	2	2	2	2
<b>Electric System:</b>				
Number of meters	50,069	49,775	48,753	48,489
Miles of high voltage lines	479	477	475	471
Number of substations	16	14	14	14
<b>Sewerage System:</b>				
Miles of sanitary sewers	282	282	277	275
Miles of storm sewers	138	138	137	137
Number of treatment plants	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary
<b>Water System:</b>				
Miles of water mains	334	301	301	298
Number of fire hydrants	3,249	3,249	3,143	3,143
Miles of recycled water mains	19	19	19	19
<b>Streets:</b>				
Miles of Streets	249	249	248	248
Number of Street Lights	8,179	8,170	8,163	8,171
Number of Traffic Signals	184	182	178	175

Source: City of Santa Clara

# CITY OF SANTA CLARA

Table 19

## Statement of Insurance Coverage June 30, 2006

TYPE OF POLICY	INSURANCE COMPANY	LIMITS**	ANNUAL PREMIUM	TERM YEARS	EXPIRATION DATE
<b><u>Liability</u></b>					
Comprehensive General	Self-insured (since 1987)	-	n/a	-	Ongoing
Workers' Compensation	Self-insured (since 1973)	\$500,000	n/a	-	Ongoing
Excess Workers' Compensation	CSAC Excess Ins. Authority	\$150 million	\$451,653	1	7/1/2006
<b><u>Property Coverage</u></b>					
All Risks, including flood, excluding earthquake	Public Entity Property Insurance Program (PEPIP): Axis Specialty Ins. Corp., Arch Specialty Ins. Commonwealth Ins. Co., Essex Ins. Co. Great Lakes Reinsurance, Lexington Ins. Lloyds of London and Others	\$1 Billion	\$391,462	1	7/1/2006
Boiler and Machinery	CNA Insurance Co.	\$100 million	\$21,756	1	7/1/2006
<b><u>Financial Loss Bonds</u></b>					
Faithful Performance, Crime Coverage Bond	CSAC Excess Ins. Authority and Lexington Insurance	\$10 million	\$9,464	1	11/1/2006

\*\* Limits are per occurrence

Source: City of Santa Clara